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THE 10TH ANNUAL INC. 100

THE MAGAZINE FOR GROWING COMPANIES

MAY 1988
$3.00

Inc.®

1988's FASTEST-GROWING SMALL PUBLIC COMPANIES

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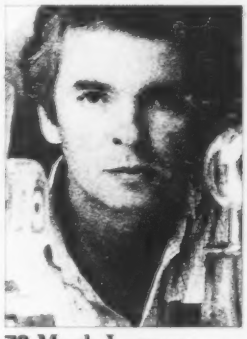

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Taking on the perfume establishment

COVER ILLUSTRATION
by
Min Jae Hong

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DOWN, BUT NOT OUT

If small growth companies really have become our economy's engine, does 'big' necessarily mean 'bad'?

BY DAVID L. BIRCH

As its more faithful readers know, big companies haven't been this column's favorite topic. Not that their performance of late has suggested they should have been. From 1980 to 1986, the *Fortune* 500 as a group eliminated some 2.8 million jobs. Downsizing of similar proportions has occurred in Europe. Even in Japan there are rumors of large-company work-force reductions.

One result of such sobering facts is the increased noise about the performance of smaller companies—particularly smaller growth companies. Another result, less talked about, is the temptation to believe that big companies are relics of the past, that they are just so many economic dinosaurs unfit for survival in our newly competitive age. Is the conviction true?

Not at all. In fact, a careful look at the performance of large companies reveals that many of them are highly successful and seem quite unimpeded by size. To be sure, the big-company gainers are buried in the midst of a larger group of losers—but they are there, and thriving, nonetheless. It's interesting to examine exactly how they grow.

The significance of these larger businesses first shows up when we examine the source of replacement jobs—new jobs replacing ones lost due to layoffs or closings. The second largest source of replacement jobs, besides start-ups, was large, growing companies (see figure 1).

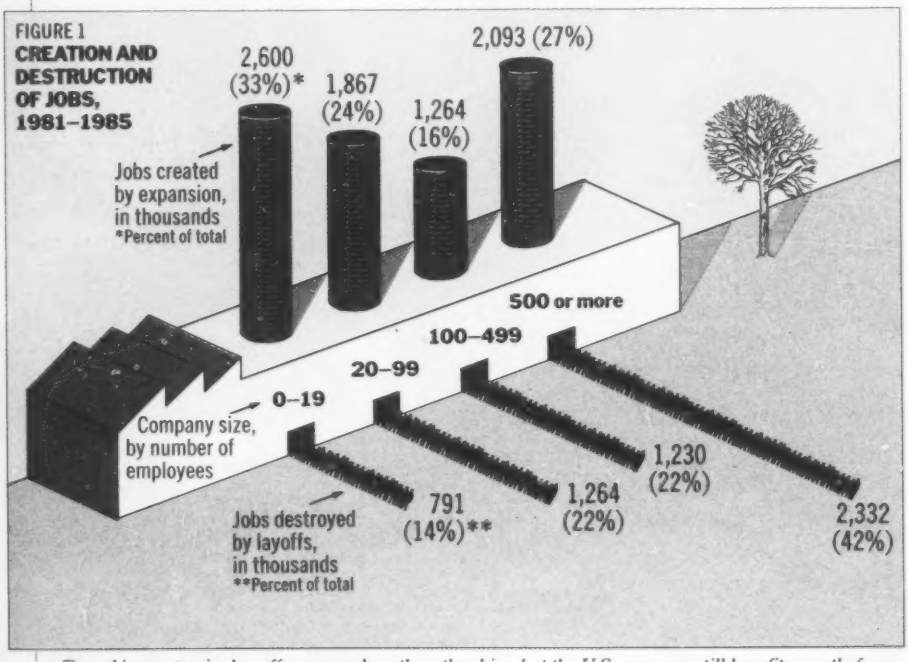


FIGURE 1 **CREATION AND DESTRUCTION OF JOBS, 1981–1985**

True, big companies lay off more workers than they hire, but the U.S. economy still benefits greatly from the jobs created by big businesses that do *expand. Large companies remain the second-largest job source.*

Large companies were also by far the biggest source of job losses, and, on balance, big business destroyed more jobs than it created. But we shouldn't let the net results mask the fact that the U.S. economy benefits very significantly from growth on the high as well as the low end of the company-size scale.

What can we learn from our data about large, growing companies? How do they maintain their levels of innovation and competitiveness when so many other large companies seem to be struggling? To find out, we have examined the operations of such companies across all their branch locations, hoping to learn whether their growth is consistent companywide. In particular, we identified a group of about 1,700 large companies that had established at least 10 locations in the United States, and that employed at least 500 people collectively in their branches as of June 1987. The vast majority of these businesses employed more than 1,000 people in total, and 57% of them employed more than 5,000; these are substantial outfits.

The first thing we notice is that these larger businesses grow primarily by *adding* new branches, not by encouraging innovation and growth within existing facilities. About 14% of all large companies increased their total employment by more than 50% from 1982 to 1987, but only 3% of them did so by expanding their existing 1982 locations (see figure 2).

There is nothing wrong with growth through addition of facilities. Some of America's most successful companies have created millions of jobs in just this way. The franchisors are a classic example. So are such companies as Federal Express, Wal-Mart Stores, Citicorp, and Holiday Inns.

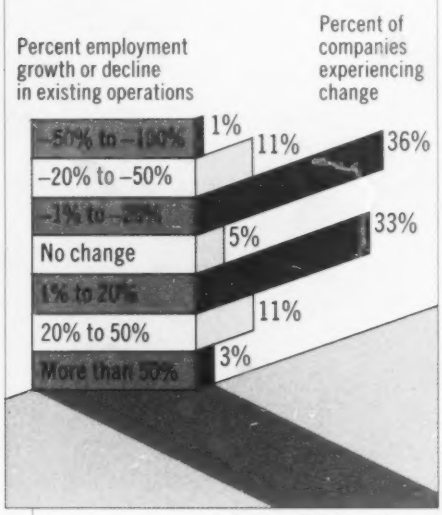
The question remains, though: are there big companies that are able to stimulate the expansion of their *existing* operations as though each were a small, growing business—making the "intrapreneurship" concept work? The evidence suggests there are very few. Only 7% of all the large businesses we studied were able to increase more than half their facilities *at all* during this five-year period, and even of the rapidly growing companies, only 17% could do so. There are a few exceptions. Such companies as Rolm, American Honda Motor, Arthur Andersen, Piedmont Aviation, and Prime Computer have grown a large percentage of

CHARTS: NIGEL HOLMES

their existing operations, rather than simply growing by acquisition or new-facility start-up. But they are just a handful.

In short, growth by larger companies is overwhelmingly a function of creating more copies of a good thing. The innovation flows from the initial concept (perhaps modified over time) and the company's ability to manage a network of outposts that are based on that concept. Very little growth comes from innovation within the outposts.

FIGURE 2
SOURCE OF GROWTH OR DECLINE IN EXISTING OPERATIONS OF LARGE COMPANIES 1982–1987



Large companies expand mainly by adding new facilities, not by growing existing ones.

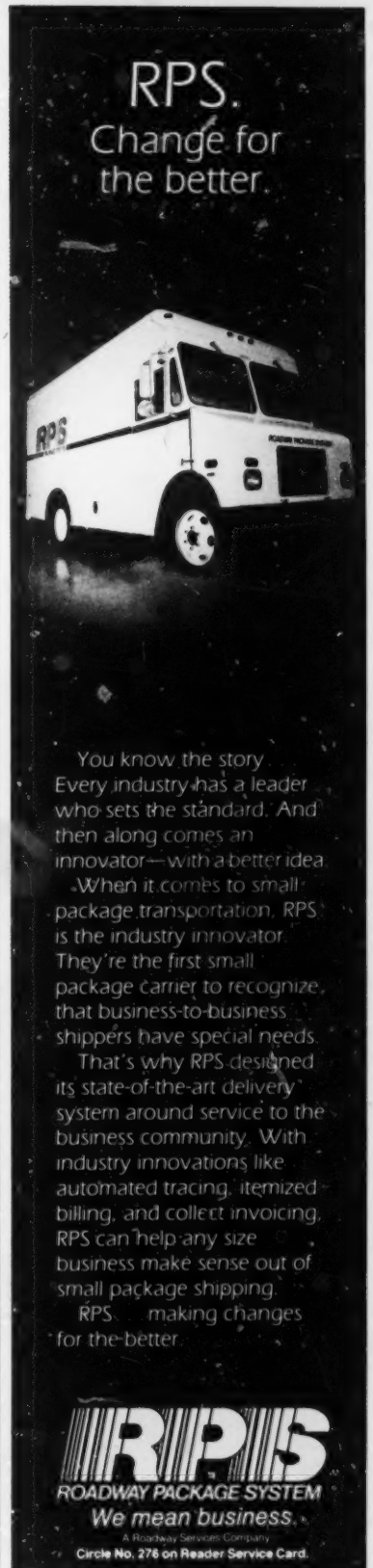
Putting aside the *source* of growth for a minute, we discovered a fascinating characteristic shared by an uncommonly high number of the large businesses that keep growing. To a striking extent, they are companies that are still managed (directly or indirectly) by the entrepreneurs or families who founded them. Digital Equipment, Wang Laboratories, Federal Express, Mrs. Fields Cookies, Compaq Computer, Humana, Wal-Mart Stores, Microsoft, Steelcase, and Bain & Co. are all good examples.

Just as it is sometimes useful to think of a young, growing company as a "large company that happens at the moment to be small," so it now appears wise to think of many successful bigger businesses as "small companies that happen at the moment to be large." The presence (or immediate past presence) of the entrepreneurial founder of a company seems to play a crucial role in the company's ability to climb the corporate ladder rapidly. In each of these instances the entrepreneurial process has remained at work throughout the life of the enterprise, regardless of the enterprise's size. It is a rare case indeed when the "professional management" installed to replace the source of the original concept can sustain that concept, making the exceptions—IBM, L.L. Bean, McDonald's, American Express, and others—all the more interesting.

If large companies grow primarily through the widespread exploitation of a brilliant idea, and if their growth is based, in many cases, on the presence of the source of that idea, we should not be surprised to find that large businesses exhibit many of the same characteristics as small ones. They start, they grow (sometimes erratically), and they fade when the idea has outlived its usefulness.

The lesson? We should not expect of our large corporations that they somehow possess a corporate fountain of youth. We should not mourn the fact that, in the 11 years between 1970 and 1981, 29% of the 1970 *Fortune* 500 companies vanished as companies, and that the "vanishing rate" of a *Fortune* 500 company is only two and a half times less than the vanishing rate of a garage start-up today. We should instead recognize it as part and parcel of the same turbulence that dominates the New Economy in general, and be satisfied that so many of our smaller businesses can so often grow to be big. □

David L. Birch is president of Cognetics Inc., in Cambridge, Mass., and director of MIT's Program on Neighborhood and Regional Change.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THE 10TH ANNUAL RANKING
OF THE FASTEST-GROWING SMALL PUBLIC COMPANIES

THE INC. 100

For 10 years, founders, companies, and industries have passed from our lists into entrepreneurial lore

BY STEPHEN D. SOLOMON

This is the 10th year we have published our list of the fastest-growing small public companies. When we inaugurated the list in April 1979—in the very first issue of INC.—our intention was to spotlight enterprises writing economic history as it happened.

Many of these companies were less than 10 years old, and were moving so fast that sonic booms might have echoed in their wake. What flowed through their engines wasn't the usual fuel, but an unusually potent mixture made of one part opportunity, one part opportunism. Each company had come into being because someone had recognized a major change in the marketplace and moved quickly to exploit it. We thought that the INC. 100 companies, over time, would provide a map of the major business opportunities created by changes in the U.S. economy.

They have done just that. A tour through our lists shows not just companies but whole industries emerging to exploit changes in technology, demographics, and public policy. Industries such as overnight delivery and day-care centers. Regional airlines and personal computers. The lists also reveal people who later would eclipse Presidential candidates in name recognition: Steven Jobs, Liz Claiborne, and Mitch Kapor. Finally, the lists uncover major growth companies in their early years.

RICHEST OFFICERS
As ranked by *Forbes* in 1987 (in $ mil.)

Roy Speer Home Shopping Network Inc.	$600
A.C. "Mike" Markkula Jr. Apple Computer Inc.	470
Lowell Paxson Home Shopping Network Inc.	385
Philip Knight Nike Inc.	345
Frederick W. Smith Federal Express Corp.	285
Lawrence J. Ellison Oracle Corp.	245

Since 1979, 612 companies have appeared on the INC. 100. They have grown at a compound annual rate of 90%; on average, doubling in size every 56 weeks. The companies on this year's list alone have created nearly 70,000 jobs since 1983, and some grew so quickly that they averaged six new hires *each day*.

The fantastic rates of growth of the INC. 100 might seem a bit surprising, coming as they do during a decade of great turbulence for the American economy. But it's no paradox: turbulence and change present opportunities for those willing to take risks. Many of the nation's largest corporations saw this turbulence as a peril rather than an opportunity, and they reacted defensively, as if they had everything to lose—which, too often, it turned out, they did.

It wasn't always this way. The nation's largest corporations started as fast-moving risk takers, too. But that was yesterday. And so today, lists that rank the largest corporations in America are essentially historical in nature, illuminating achievements of decades past, when railroads, steel, and automobiles made America the world's preeminent industrial power.

But if the INC. 100 chronicles economic history, what does it tell us? The world was different in 1979. U.S. automakers still had a dominant role. Sales for United States Steel Corp. were up by 15% over the previous year. The *Fortune* 500, as a group, had just enjoyed a year of healthy growth: up 12.2% in sales and 17% in profits.

SALES LEADERS
Four of the five all-time sales leaders appear on the 1988 list.

Businessland Inc. $600 mil., 1988
Apple Computer Inc. $583 mil., 1983
Home Shopping Network Inc. $582 mil., 1988
America West Airlines Inc. $575 mil., 1988
Sun Microsystems Inc. $538 mil., 1988

The challenge to big business was coming not only from the rising nations on the Pacific Rim. It was coming also from small, fast-growing companies at home—companies that could move quickly to capitalize on emerging opportunities.

What were those companies? And what were those opportunities? A look through the list, year by year, reveals a portrait of business as a continual act of creation.

When we published our first list in 1979, one of the leading business opportunities was the overnight delivery of business packages. Advances in communications had already accelerated the pulse of business in the '70s, but one major bottleneck remained: there was no good way to get a bundle of documents from one location to another overnight. United Parcel Service Inc. had dominated the delivery industry for several decades, but evidently didn't

understand the changing needs of its customers. A 28-year-old pilot named Frederick W. Smith did, and by 1979 he had guided Federal Express Corp. onto the INC. 100. The overnight business he founded is now a $7-billion industry, and Federal Express owns more than half the market.

The 1979 list noted another powerful marketing concept. The real-estate industry had grown up as a fragmented business with thousands of small operators who had no more clout in the marketplace than the corner dry cleaner. Why not convert many of these local businesses into a franchise operation with a national name and the resources to advertise in both the local and national media? Century 21 Real Estate Corp. was the creation of Art Bartlett, who developed his ideas while running a small company that supplied real-estate data to banks.

INC. 100 ALL-STARS
The following companies—all of them computer makers—have appeared on five INC. 100 lists:

- Cray Research Inc.
- Tandem Computers Inc.
- Tandon Corp.
- NBI Inc.

In 1980, the INC. 100 pictured two new airlines lifting off the runway. Like the seven others that would appear on our lists in subsequent years, Southwest Airlines Co. and Air Florida System Inc. were offspring of the government's deregulation of the airline industry in 1978. Unfortunately, the resulting business opportunity proved to be short-lived. Many of the industry's more than 100 upstart carriers, including Air Florida, disappeared within a few years; all but a few were bought out or became feeder lines into big-city hubs controlled by the major air carriers.

Large corporations, in fact, routinely prospect among INC. 100 companies, figuring that opportunities missed can be purchased later for cash or stock. Jhirmack Enterprises Inc., a maker of hair-care products, grew at a compound annual rate of 66% between 1975 and '79, earning it a place on the 1980 list. In 1982, International Playtex Inc. bought the company. Such fast-growers as Verbatim (floppy disks) and MetPath (diagnostic laboratories) were also absorbed by large companies.

PRODUCTIVITY LEADER
King World Productions Inc., an entertainment company, is the all-time productivity leader, with $2.57 million in sales per employee in 1988.

In 1981, Cobb Resources Corp. topped our list with a compound annual growth rate of 678%. It wasn't surprising to have a company engaged in mining and oil exploration rise to the top; through the first five years of the list, energy companies accounted for one out of every five INC. 100 businesses. But a crevice was opening in the natural-

10 COMPANIES THAT CHANGED THE WORLD

INC. 100 enterprises have introduced products or services that have altered the business landscape in a fundamental way

FEDERAL EXPRESS
INC. 100
1979 #19

	'79 INC. 100	FY '87
NET SALES	$160.3 mil.	$3.2 bil.
NET INCOME	$20 mil.	($65.6 mil.)
EMPLOYEES	5,595	41,000

Federal will route your package through Memphis tonight with some 900,000 others.

	'79 INC. 100	FY '87
NET SALES	$23 mil.	NA
NET INCOME	$3.9 mil.	NA
SALESMEN	55,000	78,000

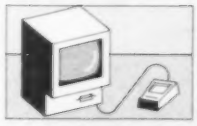
Century 21 is now a subsidiary of Metropolitan Life Insurance Co.

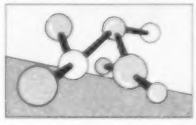
Century 21
INC. 100
1979 #8

INC. 100
1982 #1; 1983 #5

	'82 INC. 100	FY '87
NET SALES	$334.8 mil.	$2.7 bil.
NET INCOME	$39.4 mil.	$217.5 mil.
EMPLOYEES	2,400	7,927

Apple's John Sculley went after the business market with a powerful Mac.





	'83 INC. 100	FY '87
NET SALES	$32.6 mil.	$230.5 mil.
NET INCOME	$625,000	$42.2 mil.
EMPLOYEES	440	1,465

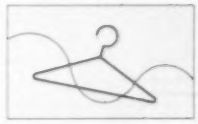
It may be the only biotech firm with a chance to grow into a major pharmaceutical house.

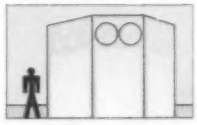
Genentech, Inc.
Genentech, Inc.
INC. 100
1983 #16; 1984 #62

Liz Claiborne
INC. 100
1982 #36; 1983 #84

	'82 INC. 100	FY '87
NET SALES	$116.8 mil.	$1 bil.
NET INCOME	$10.2 mil.	$114.4 mil.
EMPLOYEES	351	3,600

Liz Claiborne expects future growth to come from its new First Issue retail stores.





	'79 INC. 100	FY '87
NET SALES	$17.2 mil.	$687.3 mil.
NET INCOME	$3.5 mil.	$147 mil.
EMPLOYEES	321	4,308

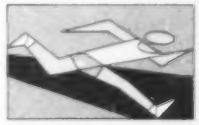
Cray faces many new competitors, including U.S. start-ups and the Japanese.

CRAY RESEARCH, INC.
INC. 100
1979 #5; 1980 #2; 1981 #7; 1982 #80; 1983 #74

NIKE
INC. 100
1981 #29

	'81 INC. 100	FY '87
NET SALES	$269.8 mil.	$877.4 mil.
NET INCOME	$12.5 mil.	$35.9 mil.
EMPLOYEES	2,600	3,000

Nike was one of the first to get in on the nation's fitness craze.



	'81 INC. 100	FY '87
NET SALES	$56.6 mil.	$506.6 mil.
NET INCOME	$3.4 mil.	$26.3 mil.
EMPLOYEES	7,200	16,400

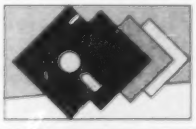
The first day-care chain now has space for 120,000 children.

Kinder-Care
INC. 100
1981 #98

Lotus
INC. 100
1987 #2

	'87 INC. 100	FY '87
NET SALES	$282.9 mil.	$395.6 mil.
NET INCOME	$48.3 mil.	$72 mil.
EMPLOYEES	1,400	2,200

Its challenge is diversification; Lotus 1-2-3 accounts for an estimated 70% of sales.



	'86 INC. 100	FY '87
NET SALES	$295.6 mil.	$553.7 mil.
NET INCOME	($1.5 mil.)	$28.2 mil.
EMPLOYEES	3,200	4,000

Apollo pioneered the industry's fastest-growing niche, engineering workstations.

apollo
INC. 100
1986 #14; 1987 #62

ILLUSTRATIONS: NIGEL HOLMES

10 COMPANIES THAT DIDN'T CHANGE THE WORLD

For every Apple Computer Inc. or Federal Express Corp., there are others that ran into problems

Air Florida System Inc.

#14 in 1982
Sales: $304.1 mil.
Net income: ($5.8 mil.)
Chapter 11: 1984

Remarks: Air Florida System was subsequently acquired by Midway Airline Inc. in 1985.

Vector Graphic Inc.

#31 in 1983
Sales: $36.2 mil.
Net income: $2.4 mil.
Chapter 11: 1985

Remarks: Vector Graphic was a pioneer that perceptively targeted its microcomputers toward small-business users. Then it was crushed by the new IBM PC.

Wedtech Corp.

#52 in 1984
Sales: $27 mil.
Net income: $5 mil.
Chapter 11: 1986

Remarks: Thanks to friends in high places, this small machine shop quickly became a large government contractor. Many of those friends have been indicted on charges ranging from bribery to influence-peddling.

Westworld Community Healthcare Inc.

#18 in 1987
Sales: $178 mil.
Net income: ($100,000)
Chapter 11: 1987

Remarks: In attempting to modernize rural hospitals, Westworld came up with an unorthodox billing system. In the process, it confused its banker, angered insurance companies, and—the final blow—got stuck with too many empty beds.

Flight Transportation Corp.

#31 in 1982
Sales: $24.8 mil.
Net income: $2.3 mil.
Receivership: 1982

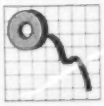
Remarks: Company, what company? As the FBI and SEC discovered, Flight Transportation was not much more than a securities swindle that crashed, leaving a tangle of litigation.

Pysch Systems Inc.

#19 in 1984
Sales: $5.5 mil.
Net income: ($1 mil.)
Chapter 11: 1984

Remarks: The company's minicomputer systems were apparently too pricey for the psychologists and psychiatrists for whom they were designed. Customers were satisfied with less expensive microcomputers.

Chemical Investors Inc.



#18 in 1983
Sales: $36.5 mil.
Net income: $640,000
Out of business: 1983

Remarks: Weak management and an aggressive program of acquisitions left this maker of industrial tape cash poor.

Kelly-Johnston Enterprises Inc.

#69 in 1985
Sales: $94.6 mil.
Net income: ($333,000)
Chapter 11: 1985

Remarks: This fast-food franchisee overestimated the market's capacity for Mexican food.

Pizza Time Theatre Inc.

#17 in 1984
Sales: $165.5 mil.
Net income: ($6 mil.)
Chapter 11: 1984

Remarks: Kids and their parents munched pizza while watching animal robots and playing video games. The games didn't hold their attention, and even the kids realized they were eating cardboard. The company was acquired by Show Business Pizza Place Inc.

Xonics Inc.

#99 in 1983
Sales: $87 mil.
Net income: ($796,000)
Chapter 11: 1984

Remarks: Its technology could detect life-threatening illnesses early, but Xonics didn't foresee coming changes within the medical-imaging industry. Caught unaware, the company was zapped by price-cutting and confusion over Medicare policy.

resources industry, and Cobb fell into it. The price of minerals and then of oil plunged; soon, only Cobb's echo could be heard. Sales dropped from $11 million to $1.7 million in two years.

By 1987, only 4 energy companies had grown fast enough to make the INC. 100, down from 25 in 1982. It wasn't until this year's list, however, that the full scale of the industry's downfall became clear. In 1988, Harken Oil & Gas Inc. claims the #11 spot by growing through a strategy of acquiring faltering oil-and-gas companies. The destruction of the industry as a growth vehicle for other than scavengers is now complete.

Life in the fast lane proved much happier for another company on the 1981 list. With a compound annual growth rate of 109%, Nike Inc. was cashing in on the nation's fitness craze. Its success helped pave the way for other hot, new growth companies in the athletic shoe industry, such as Reebok International Ltd. and Timberland Co.

FOUNDERS' HONOR ROLL

Several founders have guided more than one company onto the 100.

Phillipe Villers
Computervision Corp.
Automatix Inc.

Irwin Selinger
Surgicot Inc.
Patient Technology Inc.

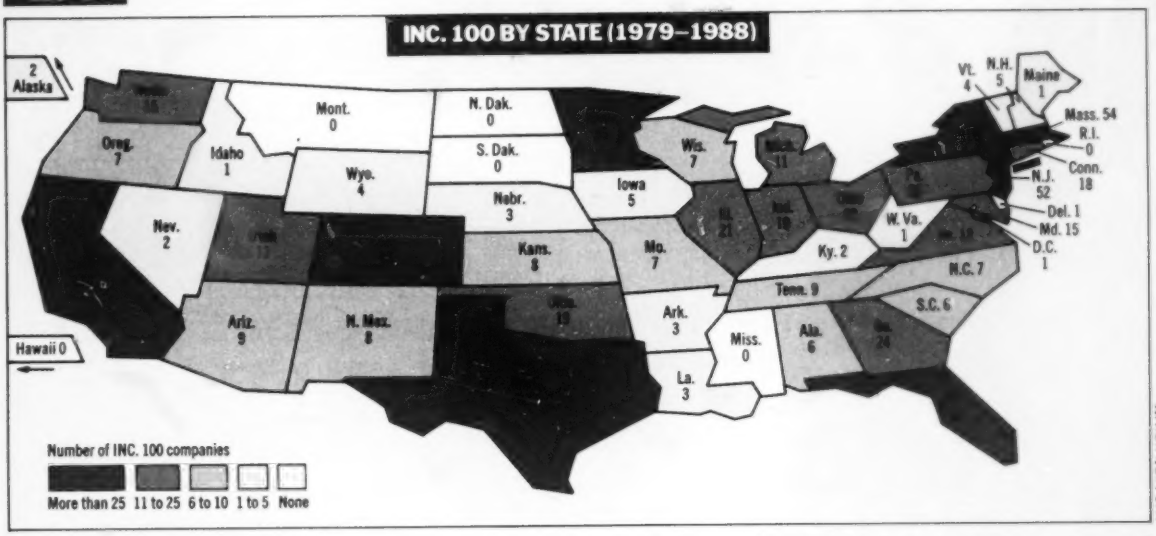
William Poduska
Prime Computer Inc.
Apollo Computer Inc.

Another trend lifted Kinder-Care Learning Centers Inc. to the list in 1981, and Liz Claiborne Inc. in 1982. What both of these companies saw were new business opportunities borne by one of the major social phenomena of our time, the rush of women into the workplace. Almost 52 million women claimed paychecks in 1986, up 200% since the end of World War II. That same year, they became the majority of professional employees for the first time, and they started one out of every 3 new companies in the country, compared with one in 10 in 1960.

What were all these women going to do with their children while they worked? Kinder-Care had the answer: day-care centers with a nationally recognized name. And what clothes were all the professional women going to wear? Liz Claiborne had the answer: stylish, well-made garments at an affordable price.

The 1982 list showcased Apple Computer Inc. as the #1 company. Apple's ascendancy marked the beginning of changes that were to roil the computer industry for the rest of the decade. Before then, the action had been in mainframes and minicomputers, powerful machines that let corporations centralize their computing power. Indeed, the first few INC. lists featured such fast-growing makers of large computers as Amdahl, Prime Computer, Tandem, and Cray Research.

ILLUSTRATIONS: NIGEL HOLMES



MAP: NIGEL HOLMES

Then came radical miniaturization of processors and memory chips. The computer scientist Christopher Evans calculated how much cheaper and more efficient a car would be if the auto industry had advanced as fast as the computer industry: "Today you would be able to buy a Rolls-Royce for $2.75, it would do 3 million miles to the gallon, and it would deliver enough power to drive the *Queen Elizabeth II*. And if you were interested in miniaturization, you could place half a dozen of them on a pinhead."

This cheap and miniaturized computing power now could be decentralized onto every worker's desk. Apple Computer was the first company to turn the new technology into commercial products. Those who followed—including Apollo Computer Inc. (#62 in 1987) and Sun Microsystems Inc. (#17 this year)—souped up the PC, making a powerful desktop machine.

In 1983, INC. recognized Genentech Inc. as one of the nation's premier growth companies. Its prospects would have been limited had it not challenged the conventional wisdom that it is no longer possible to grow a major pharmaceutical company from scratch. Almost alone among more than 200 biotechnology companies that started up in the past decade, Genentech focused squarely on marketable products rather than basic research and avoided the trap of becoming no more than the R&D arm of an established drug company. Genentech pioneered four of the six biotech products that have received FDA approval.

INC. 100 BY INDUSTRY
The 612 companies that have appeared on our 10 lists break down this way by industry (in percentages)

Computer-related	30
Health & medicine	17
Miscellaneous	17
Oil, gas, & energy-related	14
Consumer goods	6
Communications	5
Food & restaurants	4
Transportation	4
Telecommunications	3

Not all INC. 100 companies, of course, perform ideally. Our 1984 list featured Pizza Time Theatre Inc. (#17), started by Atari Inc. founder Nolan Bushnell, who combined fast-food pizza with children's entertainment provided by goofy costumed characters. Even the kids got tired of the idea. The company filed for Chapter 11 protection from 5,000 creditors who were owed $100 million.

Wedtech Corp. ranked #52 in 1984, two years before it filed for Chapter 11 protection. A military contractor, Wedtech allegedly bribed politicians to obtain government work: when the scandal broke, a handful of them pled guilty. Lyn Nofziger, a former adviser to President Reagan, was convicted under the 1978 Ethics in Government Act, and last year Representative Mario Biaggi (D-N.Y.) was indicted for bribery and racketeering.

A company on the list in 1985 has affected government officials in a more constructive way. Micron Technology Inc., a maker of computer memory chips, was coming off an amazing year in which it posted net income of $29 million on sales of $87.4 million. But the fat times didn't last. Japanese chipmakers flooded the market with memory devices in 1985, and prices plummeted. Micron held on just barely: last year, the company lost $22.9 million on $91.2 million in sales.

Micron Technology chairman Joe Parkinson fought back politically, leading to a trade agreement under which the Japanese agreed to stop selling memory chips below cost. As a result, the Japanese slowed production growth and raised their prices.

The list in 1986 saw two new groups of companies emerge as a result of major changes in the economy. The deregulation of the telecommunications industry and the breakup of AT&T had created growth opportunities for scores of new companies in phone-system design and maintenance. Nine made the list in 1986, more than three times the average of the previous seven years. And the current emphasis on cost containment in health care spawned many enterprises offering outpatient clinics, medical care in the home, and health maintenance organizations.

INC. 100 BY SECTOR
The companies on our lists since 1979 break down this way by sector (in percentages)

Manufacturing	53
Service	32
Mining, oil, & gas	8
Retail	3
Distribution	3
Other	1

Finally, in 1988, the INC. 100 has confirmed that the American pastime has shifted from baseball to discount shopping. Traditional discounters are old hat compared with the new generation of price slashers, many of which specialize in a single line of merchandise, such as consumer electronics. The top three companies in the rankings this year are specialty discounters.

No doubt next year, and the year after, the INC. 100 will continue to spotlight the major growth opportunities in the U.S. economy. That some of the companies will grow into stars in their own right is almost beside the point. The important thing is the principle they illuminate: that business is a continual act of creation that depends upon challenging the conventional wisdom about people, products, and strategy. □

Research assistance was provided by Amy Schulman and Pat Cleary.

THE 1988 INC. 100

	Company (1987 Rank) Business Description (Year Founded)	Percent Increase	Sales Growth (1983–87) Compound Annual Rate	Doubling Time (Weeks)[a]	Sales ($000) 1987	Sales ($000) 1983	Net Income ($000) 1987	Net Income ($000) 1983	Shareholder Equity ($000) 1987	No. of Employees 1987	No. of Employees 1983
1.	**ENTERTAINMENT MARKETING** Houston, TX Distr. consumer electronics products (1983)	38,763%	344%	24	$87,831	$226	$3,236	$6	$3,506	175	4
2.	**HOME SHOPPING NETWORK** (10) Clearwater, FL Televised specialty retailer (1982)	15,897	256	28	582,118	3,639	29,528	259	118,215	4,400	30
3.	**WAREHOUSE CLUB** Skokie, IL Operates chain of warehouse stores (1982)	15,469	253	29	228,393	1,467	(6,397)	(762)	13,892	505	100
4.	**CARE PLUS** Miami, FL Provides home health-care svcs. (1983)	13,923	244	29	22,577	161	(2,574)	(567)	12,583	250	40
5.	**DOMAIN TECHNOLOGY** Milpitas, CA Mfrs. & mkts. thin-film disks (1981)	12,002	232	30	43,083	356	1,056	(2,674)	18,098	503	50
6.	**OSICOM TECHNOLOGIES** Rockaway, NJ Distr. value-added peripheral products (1981)	11,040	225	31	31,080[12]	279	365[12]	11	959[12]	140	6
7.	**SAHLEN & ASSOCIATES** Deerfield Beach, FL Provides security svcs. (1981)	10,907	224	31	21,903	199	1,259	(107)	5,551	1,750	8
8.	**GATEWAY COMMUNICATIONS** Irvine, CA Distr. networking & communications products (1981)	10,486	221	31	12,915	122	514	(555)	5,425	76	5
9.	**LINEAR TECHNOLOGY** Milpitas, CA Mfrs. & mkts. linear integrated circuits (1981)	9,960	217	31	35,211	350	6,110	(5,759)	38,328	335	40
10.	**VIPONT PHARMACEUTICALS** Fort Collins, CO Mfrs. & researches oral hygiene products (1968)	8,670	206	32	22,889	261	3,113	(434)	13,379	83	4
11.	**HARKEN OIL & GAS** Bedford, TX Sells & distr. gas & petroleum products (1977)	8,178	202	33	421,000[c]	5,086	2,637[g]	(1,526)	70,000[c]	350	37
12.	**BONNEVILLE PACIFIC** (7) Salt Lake City, UT Develops power facilities (1980)	7,697	197	33	36,722[a]	471	5,031[a]	111	24,111	45	9
13.	**EXCELAN** San Jose, CA Mfrs. local area network products (1982)	7,357	194	33	38,999	523	4,079	(1,601)	31,944	193	40
14.	**NATIONAL HEALTHCARE** (5) Atlanta, GA Provides rural health-care svcs. (1981)	7,209	192	34	249,969	3,420	(24,788)	(817)	30,563	3,960	100
15.	**GENERAL PARAMETRICS** Berkeley, CA Mfrs. graphic presentation products (1981)	7,060	191	34	22,839	319	3,604	(96)	23,492	122	14
16.	**ENCORE COMPUTER** Marlborough, MA Mfrs. computer products (1983)	7,018	190	34	16,727	235	(5,900)	(600)	6,316	233	5
17.	**SUN MICROSYSTEMS** Mountain View, CA Supplies distributed computing systs. (1982)	6,109	181	35	537,537	8,657	36,298	654	240,734	4,182	130
18.	**BALLARD MEDICAL PRODUCTS** (26) Midvale, UT Mfrs. disposable medical products (1978)	6,070	180	35	9,748	158	1,555	(759)	5,699	203	29
19.	**CATALYST ENERGY** (1) New York, NY Independent power producer (1982)	5,850	178	35	411,000[c]	6,908	5,714	146	162,593[g]	760	6
20.	**BUSINESSLAND** San Jose, CA Provides bus. automation marketing svcs. (1982)	5,838	178	35	600,039	10,105	8,370	(1,181)	96,974	2,030	179
21.	**TELEMATICS INTERNATIONAL** Fort Lauderdale, FL Mfrs. & mkts. hardware & software products (1982)	5,564	174	36	43,446	767	7,873	(2,765)	55,860	310	49
22.	**SAMNA** Atlanta, GA Mfrs. word-processing programs (1982)	5,423	173	36	11,709	212	1,848	(429)	7,500[c]	130	15
23.	**SYSTEM SOFTWARE ASSOCIATES** Chicago, IL Develops & mkts. bus. applications software (1981)	4,998	167	37	30,893	606	3,302	33	19,818	246	12
24.	**INTERSPEC** Conshohocken, PA Mfrs. ultrasound systs. & related supplies (1979)	4,981	167	37	32,009	630	3,315	(1,385)	21,200	257	40
25.	**NEW WORLD PICTURES** Los Angeles, CA Produces motion pictures & TV programs (1983)	4,715	163	37	404,459[i]	8,400	617[g]	(4,746)	53,295[g]	650	NA

CHARTS TYPESET BY B.P.E. GRAPHICS

	Company (1987 Rank) Business Description (Year Founded)	Percent Increase	Sales Growth (1983–87) Compound Annual Rate	Doubling Time (Weeks)[a]	Sales ($000) 1987	Sales ($000) 1983	Net Income ($000) 1987	Net Income ($000) 1983	Shareholder Equity ($000) 1987	No. of Employees 1987	No. of Employees 1983
26.	**EXPEDITORS INTERNATIONAL** (22) Seattle, WA Provides int'l air-freight forwarding svcs. (1979)	4,152%	155%	38	$146,823	$3,453	$5,843	$952	$27,171	425	115
27.	**SIGMA DESIGNS** Fremont, CA Mfrs. & mkts. IBM-enhancement products (1982)	4,111	155	39	28,006	665	2,522	51	9,618	82	8
28.	**DATAREX** Buffalo, NY Distr. computer & word-processing supplies (1982)	4,088	154	39	43,935	1,049	1,076	10	6,235	109	8
29.	**SECURITY TAG SYSTEMS** St. Petersburg, FL Develops & mkts. clothing security systs. (1981)	3,942	152	39	5,295	131	(306)	(675)	7,311	100	29
30.	**ROSS STORES** (58) Newark, CA Operates off-price retail stores (1957)	3,854	151	39	534,413	13,517	(41,449)	(67)	84,945	5,000	470
31.	**CONTINUING CARE** Canton, MA Mkts. home health-care equipment (1982)	3,814	150	39	20,706[f]	529	(178)[g]	(214)	1,658[g]	215	20
32.	**MICROAGE** Tempe, AZ Franchises computer stores (1976)	3,725	149	40	203,018	5,307	3,500	(489)	19,397	287	36
33.	**NU MED** Encino, CA Provides health-care svcs. (1977)	3,630	147	40	391,762	10,504	4,360	586	51,338	5,200	1769
34.	**BARRIS INDUSTRIES** Beverly Hills, CA Develops & produces TV programs (1968)	3,591	146	40	63,449	1,719	15,205	1,084	44,490	90	15
35.	**ACUSON** Mountain View, CA Mfrs. & mkts. diagnostic imaging systs. (1979)	3,552	146	40	105,566	2,891	16,790	(5,575)	70,587	623	70
36.	**LE PEEP RESTAURANTS** Syosset, NY Owns & operates restaurants (1981)	3,471	144	40	13,500[c]	378	(2,808)[g]	(1,164)	1,898[c]	650	35
37.	**AMERICAN CITY BUS. JRNLS.** (11) Kansas City, MO Publishes regional bus. journals (1982)	3,381	143	41	76,000[c]	2,183	(12,057)[g]	(1,537)	34,943[g]	1,250	100
38.	**INTELLICORP** Mountain View, CA Develops & mkts. computer software (1980)	3,379	143	41	20,352	585	(3,987)	(730)	27,764	223	40
39.	**HMSS** Houston, TX Provides home infusion therapies (1982)	3,242	140	41	16,543	495	2,138	(538)	19,758	172	5
40.	**FIRST WORLD CHEESE** South Orange, NJ Develops, mkts., & distr. specialty cheeses (1983)	3,166	139	41	29,488	903	530	(224)	1,379	190	3
41.	**NOVELL** Provo, UT Mfrs. & mkts. local area network products (1980)	3,122	138	42	182,800	5,673	20,338	(1,334)	101,249	1,100	14
42.	**AMERICA WEST AIRLINES** Tempe, AZ Operates regional airline (1981)	3,068	137	42	575,447	18,166	(45,675)	(6,454)	45,870	7,000	806
43.	**TRIMEDYNE** Santa Ana, CA Develops & mfrs. fiber-optic laser catheters (1980)	3,054	137	42	12,334	391	494	(1,104)	9,348	151	7
44.	**TECH DATA** (78) Clearwater, FL Distr. computer-related hardware (1974)	3,030	137	42	71,519	2,285	1,983	27	10,810	163	15
45.	**KING WORLD PRODUCTIONS** (35) Summit, NJ Distr. & syndicates TV programs (1964)	2,990	136	42	241,306	7,808	33,981	649	39,233	94	15
46.	**ECAD** Santa Clara, CA Develops & mkts. engineering software (1982)	2,945	135	42	23,900	785	3,164	16	25,173	185	20
47.	**UNITED HEALTHCARE** (57) Minnetonka, MN Develops & mkts. health-care delivery systs. (1977)	2,930	135	42	440,035	14,524	(15,801)	(192)	41,523	2,969	175
48.	**INTELLIGENT ELECTRONICS** Exton, PA Mkts. microcomputer systs. & products (1982)	2,895	134	42	80,877	2,700	2,237	(1,273)	14,475	35	69
49.	**TCBY ENTERPRISES** (52) Little Rock, AR Franchisor of frozen yogurt (1981)	2,865	133	43	69,183	2,333	13,012	226	49,688	395	40
50.	**ADVANCED MARKETING SERVICES** San Diego, CA Supplies books to membership clubs (1982)	2,861	133	43	70,329	2,375	1,619	70	21,351	133	9

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Company (1987 Rank) Business Description (Year Founded)	Percent Increase	Sales Growth (1983–87) Compound Annual Rate	Doubling Time (Years)*	Sales ($000) 1987	Sales ($000) 1983	Net Income ($000) 1987	Net Income ($000) 1983	Shareholder Equity ($000) 1987	No. of Employees 1987	No. of Employees 1983
51. **CANTERBURY EDUCATIONAL SVCS.** Medford, NJ Designs & presents seminars & courses (1981)	2,850%	133%	43	$5,457	$185	$202	($23)	$1,667	200	5
52. **MASSACHUSETTS COMPUTER** Westford, MA Mfrs. & sells computer systs. (1982)	2,794	132	43	74,660	2,580	6,289	(3,088)	56,920	675	100
53. **INTERMARK GAMING INT'L** Phoenix, AZ Mfrs. & mkts. gaming devices (1979)	2,774	132	43	7,500[c]	261	623[a]	(87)	5,295[a]	67	2
54. **LANDMARK AMERICAN** Marietta, GA Provides historic rehabilitation svcs. (1978)	2,745	131	43	21,107	742	4,045	344	13,789	35	6
55. **COM SYSTEMS** Van Nuys, CA Provides long-distance & operator svcs. (1975)	2,656	129	43	39,000[c]	1,433	1,700[c]	(1,234)	(4,570)[c]	298	85
56. **ORACLE** (60) Belmont, CA Develops & mkts. software products (1977)	2,506	126	44	131,271	5,037	15,623	658	82,656	1,100	46
57. **AUTOSPA** (83) Great Neck, NY Franchises auto maintenance svcs. (1980)	2,395	123	45	5,139	206	932	(228)	5,361	113	6
58. **MODULAR TECHNOLOGY** Deerfield, IL Mfrs. & mkts. modular structures (1982)	2,387	123	45	30,860	1,241	(4,323)	(570)	7,872	325	100
59. **MESA AIRLINES** Farmington, NM Operates commuter airline (1979)	2,364	123	45	14,338	584	790	26	7,373	242	38
60. **CERNER** (99) Kansas City, MO Designs & mkts. information systs. (1980)	2,347	122	45	33,595	1,373	4,025	(715)	20,588	219	28
61. **BEST BUY** Minneapolis, MN Sells consumer products & appliances (1966)	2,327	122	45	239,496	9,867	7,742	88	55,747	2,200	90
62. **BAKER COMMUN.** Rolling Hills Estates, CA Publishes local newspapers (1983)	2,325	122	45	4,486[f]	185	(380)[a]	(332)	558[a]	68	11
63. **NEECO** Canton, MA Mkts. personal computer systs. & products (1977)	2,264	121	46	59,311	2,509	2,209	65	29,146	213	20
64. **MICROCOM** Norwood, MA Mfrs. & mkts. data-communications equip. (1980)	2,252	120	46	25,002	1,063	3,173	(1,688)	10,210	225	50
65. **3COM** (38) Santa Clara, CA Mfrs. local area network systs. (1979)	2,225	120	46	110,377	4,747	11,146	15	76,352	552	48
66. **INSITUFORM SOUTHEAST** (27) Jacksonville, FL Constructs & repairs sewers & pipelines (1981)	2,222	120	46	9,079	391	670	(609)	8,015	100	10
67. **AMGEN** Thousand Oaks, CA Develops chemical products (1980)	2,198	119	46	34,722	1,511	1,137	(7,079)	83,959	265	95
68. **JACOR COMMUNICATIONS** (72) Cincinnati, OH Owns & operates radio stations (1979)	2,117	117	47	43,972	1,983	(3,345)	(564)	20,782	375	51
69. **CLEAN HARBORS** Braintree, MA Provides waste-management svcs. (1980)	2,111	117	47	46,723	2,113	1,716	18	3,455	375	25
70. **CALGENE** (87) Davis, CA Provides agricultural biotechnology research (1980)	2,040	115	47	22,430	1,048	237	(1,940)	38,373	205	71
71. **SURGICAL CARE AFFILIATES** Nashville, TN Provides outpatient health-delivery svcs. (1982)	1,975	113	48	35,049	1,689	1,959	(550)	18,297	500	75
72. **IMPACT SYSTEMS** San Jose, CA Mfrs. paper-production control systs. (1980)	1,957	113	48	23,405	1,138	2,105	(1,790)	20,653	170	35
73. **PLANT GENETICS** Davis, CA Provides plant biotechnology research (1981)	1,941	113	48	4,836	237	(2,821)	(1,755)	9,840	62	40
74. **PRICE COMMUNICATIONS** (8) New York, NY Owns radio & TV stations & newspapers (1979)	1,930	112	48	104,798[f]	5,163	2,626[a]	(644)	(68,922)[a]	1,000	120
75. **NU HORIZONS ELECTRONICS** Amityville, NY Distr. electronics components (1982)	1,859	110	48	18,223	930	477	52	4,144	78	22

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Company (1987 Rank) Business Description (Year Founded)	Percent Increase	Sales Growth (1983–87) Compound Annual Rate	Doubling Time (Weeks)[a]	Sales ($000) 1987	Sales ($000) 1983	Net Income ($000) 1987	Net Income ($000) 1983	Shareholder Equity ($000) 1987	No. of Employees 1987	No. of Employees 1983
76. SOONER DEFENSE OF FLORIDA Lakeland, FL Mfrs. defense weapons (1982)	1,859%	110%	48	$18,215	$930	($2,345)	$32	$8,499	527	18
77. EMC (68) Hopkinton, MA Mfrs. computer products (1979)	1,805	109	49	127,066	6,670	28,241	919	123,439	700	17
78. CONSOLIDATED STORES (80) Columbus, OH Operates closeout retail stores (1967)	1,803	109	49	397,221	20,874	19,459	2,725	114,295	8,100	650
79. INTEGRATED DEVICE TECH. Santa Clara, CA Designs & mfrs. integrated circuits (1980)	1,800	109	49	77,807	4,096	2,565	(4,684)	71,792	862	128
80. INFORMIX (42) Menlo Park, CA Designs database mgmt. software (1980)	1,799	109	49	41,616	2,192	5,941	168	43,814	400	214
81. DIAGONAL DATA Lakeland, FL Mfrs. computer software (1981)	1,747	107	49	4,875	264	525[c]	3	1,250	85	3
82. BRENTWOOD INSTRUMENTS (46) Torrance, CA Mfrs. & sells medical testing equipment (1977)	1,744	107	49	12,855	697	(739)	(30)	4,939	42	9
83. PATTEN Stamford, VT Buys & sells rural properties (1966)	1,744	107	49	81,630	4,426	9,355	386	57,828	300	25
84. AMRE Irving, TX Provides direct consumer marketing svcs. (1980)	1,686	106	50	77,955	4,364	3,400	(27)	17,663	664	45
85. MANUFACTURED HOMES (89) Winston-Salem, NC Sells manufactured homes (1968)	1,629	104	51	190,000[c]	10,986	5,843[g]	537	20,354[g]	2,500	12
86. BEN & JERRY'S HOMEMADE (66) Waterbury, VT Mfrs. & sells ice cream (1978)	1,608	103	51	31,000[c]	1,815	1,254[g]	57	9,034[g]	180	30
87. HEALTHWAYS SYSTEMS Woodcliff Lakes, NJ Prepaid health-care delivery (1981)	1,602	103	51	48,309	2,838	(671)	(416)	6,280	242	40
88. AST RESEARCH (6) Irvine, CA Designs & mfrs. PC accessories (1980)	1,522	101	52	205,962	12,701	13,032	1,605	99,146	1,358	135
89. BIO-LOGIC SYSTEMS (31) Mundelein, IL Mfrs. & mkts. neurodiagnostic instruments (1979)	1,485	100	52	7,085	447	860	(11)	6,783	67	6
90. L.A. GEAR Los Angeles, CA Develops & mkts. athletic & leisure footwear (1982)	1,472	99	52	70,575	4,489	4,371	80	22,119	220	30
91. UNIVERSITY GENETICS Westport, CT Provides genetic & biotechnology research (1980)	1,467	99	52	4,355	278	(3,124)	0	4,016	59	NA
92. BIO-TECHNOLOGY GENERAL New York, NY Mfrs. health-care products (1980)	1,434	98	53	4,800[c]	313	(5,000)[c]	(4,195)	0[c]	130	95
93. N. ATLANTIC TECHNOLOGIES Minneapolis, MN Dvlps., mfrs., & mkts. heat-recovery systs. (1980)	1,410	97	53	3,700[c]	245	0[c]	(611)	(140)[c]	40	5
94. STAFF BUILDERS Lake Success, NY Provides temporary medical personnel (1978)	1,399	97	53	95,160	6,348	1,700	50	38,115	900	35
95. CODE-ALARM Madison Heights, MI Mfrs. & mkts. auto security systs. (1979)	1,383	96	53	12,903[c]	870	990[c]	53	15,305[g]	152	22
96. VESTAR Pasadena, CA Develops lipesomes as drug-delivery systs. (1981)	1,358	95	54	2,246	154	(3,839)	(720)	18,904	50	23
97. V-BAND SYSTEMS (73) Yonkers, NY Mfrs. & distr. specialized telephone equip. (1977)	1,354	95	54	54,019	3,715	22,545	489	48,475	265	25
98. PC QUOTE Chicago, IL Provides security quotes to brokers (1980)	1,306	94	55	6,200[f]	441	(356)[g]	(291)	3,482[g]	55	6
99. VIVIGEN Santa Fe, NM Operates fetal cell analysis laboratory (1981)	1,293	93	55	3,955	284	660	(299)	2,132	72	10
100. P.A.M. TRANSPORTATION SERVICES Tontitown, AR Provides trucking svcs. (1981)	1,235	91	56	68,700	5,145	2,554	410	21,103	1,100	74

THE INC. 100 PORTFOLIO

The numbers don't tell it all. Behind every fast-growing company is a winning strategy and the person who devised it

BY JOSHUA HYATT

HE GETS NO RESPECT

But $78 million in sales and a listing on the New York Stock Exchange are helping

OK, so every entrepreneur is discouraged from going into business. But Steve Bedowitz is a special case. In 1980, when he told his wife he was launching Amre Inc. (#84), she glared at him and shouted, "What am I going to tell my friends?" Apparently, not much. "That is one of the reasons she is now my *ex*-wife," says Bedowitz.

But she wasn't his only detractor—not by a long shot. Even today, having built a $78-million company, Bedowitz has trouble convincing potential employees to take him seriously. "I'll talk to them about the business," he reports, "and they'll laugh at me and run away."

What exactly is *the business*? Bedowitz is a modern "tinman," heir to a sleazy tradition of salesmanship that started with aluminum siding in the 1950s and continued with vinyl siding about a decade later. "This industry has not attracted businessmen," he notes dryly.

CEO Steve Bedowitz of Amre Inc.
Even after an image upgrade, the 'tinman' stereotype turns off many prospective employees.

Bedowitz was running an ad agency when he first discovered the industry. Through his work for a client, a siding distributor, he learned about what was then a $4-billion industry. Using what he considered sophisticated marketing techniques, he figured he could do pretty well.

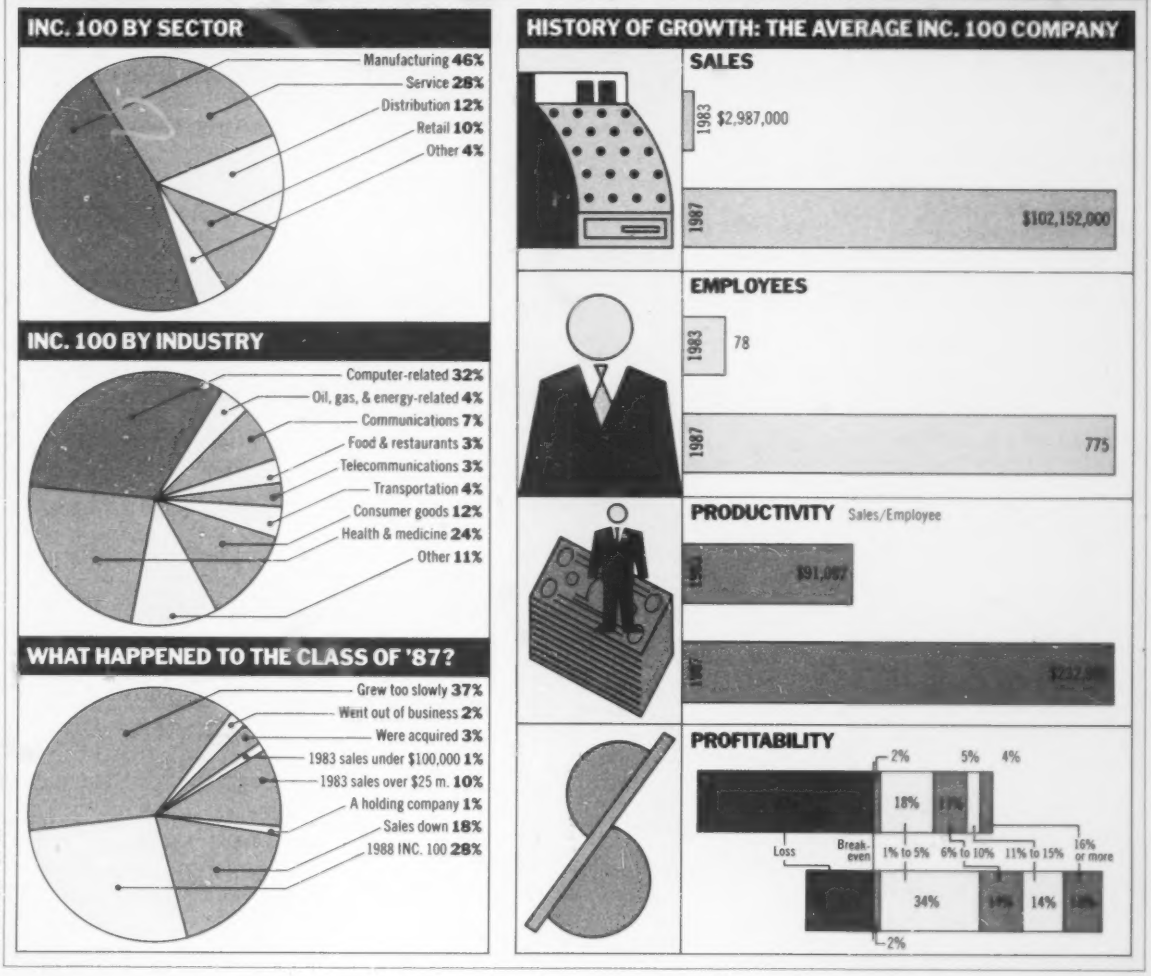
Attracting top employees has always been his biggest problem. Bedowitz leased a storefront at a local mall so that "they could see I wasn't working out of my garage," he says. Within a few months, he signed on as a siding licensee for Sears, Roebuck & Co. in the Austin region. "Their name has given us a lot of credibility," says Bedowitz, who sells nearly all of his siding under the Sears name.

Internally, Bedowitz puts salespeople through two weeks of intensive training. Leads are generated by analyzing such data as census reports, property-owner rolls, and direct-mail responses. Amre also uses proprietary software to monitor nearly every aspect of each salesperson's performance, such as cancellation rates and sales as a percentage of appointments. Top performers earn more than $100,000 a year.

Still, Bedowitz is perpetually short on candidates. Last year, he decided to have Amre listed on the New York Stock Exchange. That has helped some. "They hear siding and step back," he says. "Then they hear New York Stock Exchange and they step forward. It's a struggle." □

PHOTOGRAPH: JEFF BAKER

THE INC. 100 AT A GLANCE



CHARTS: NIGEL HOLMES

BRUSH WITH GREATNESS

What Vipont Pharmaceutical's 'celebrity' board members have in common

Barry Goldwater can be pretty tough on himself. "I don't profess to have any skills that a company would be interested in," confesses the former Arizona senator. "But I've got damn good teeth."

Still, Goldwater is no neophyte when it comes to periodontal disease. "My friends all have gum problems," he notes. Which helps explain why he—along with a Nobel Laureate and a former FDA commissioner—is sitting on the board of the research subsidiary of Vipont Pharmaceutical Inc. (#10), which focuses on gum disease. "He has tremendous political contacts, and his name is known internationally," says Lawrence L. Frederick, Vipont's chief executive officer.

Then again, great contacts are practically prerequisites for joining the company's board. Vipont, which sold nearly $23 million worth of toothpaste and mouthwash last year, recruited such formidable talent through its officers' network of acquaintances.

Jere E. Goyan, FDA commissioner from 1979 to 1981, is advising the company on preparing its product for FDA approval. "I've always had some periodontal disease," admits Goyan. "The day they asked me to join the board happened to be the day that I was having my teeth cleaned. They made a case they had something that might work."

Nor is Bruce Merrifield's interest purely academic. Merrifield, who won the Nobel Prize for chemistry four years ago, is helping Vipont untangle the mysteries of polymers. He has accepted only one other board seat. "You worry that some unscrupulous outfit will misuse your name if you agree to join," he says. "But when I saw their list of potential board members, I felt it would be a good experience." □

Vipont Pharmaceutical's Barry Goldwater
A company that attracts big names to its board

PHOTOGRAPH: DON B. STEVENSON

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NICE GIRLS DON'T EXPLODE

Some entertainment companies will do anything for a little attention

If the headline above did indeed get your attention, then Rusty Citron has done his job.

As senior vice-president of publicity and promotion at New World Pictures Ltd. (#25), Citron will use just about any ploy he can imagine—from film titles like the one above to stunts like burying a woman alive—to get attention. "We are rediscovering the lost art of publicity," says Citron.

That may be the only art evident at New World, where most of the movies, such as *Reform School Girls* and *Godzilla 1985,* are not the stuff of Academy Awards.

Still, New World, which posted sales of $404 million last year, competes with such major studios as Warner Bros. It spends, on average, about $4 million on production costs for every film, compared with the $14 million that big studios shell out. And its promotion budget, which can be as little as $100,000 per picture, is about 40% lower than its competitors. That rules out such standard industry practices as national television campaigns and press junkets.

Knock-'em-dead publicity
'A lost art,' says vice-president Citron.

All of which explains why Citron and his eight-person staff try to come up with a "singular and cost-efficient approach" for publicizing each movie. They usually succeed.

Take *Vamp,* for instance. To promote this graveyard epic, New World decided to bury a woman alive for two days. After choosing a volunteer through a newspaper ad, they put her in a coffin and buried her under two tons of dirt on Hollywood Boulevard. During the 48 hours, she was on view through a glass window and gave telephone interviews to radio stations. "I was nervous," admits Citron. "But I'll bet we generated $1 million worth of free radio time."

For *House II: The Second Story,* the company hired three mediums to contact the spirit of Harry Houdini, the legendary escape artist. They held hands, burned incense, chanted, and even brought along some of Houdini's possessions. Nothing otherworldly happened, but never mind. "Harry didn't make it," says Citron. "But the TV stations did."

Finally, there was Citron's masterful stunt for *Nice Girls Don't Explode.* When the movie opened at a Kansas City, Kans., drive-in in March 1987, New World chose a female volunteer, handcuffed her, wrapped her in 50 feet of welded link chain, and placed her in a balsa-wood box. Then the box was surrounded by plastic explosives, which went off after 60 seconds. Did she survive the blast? "I think so," replies Citron. "Although, come to think of it, I haven't heard from her since." □

HITTING THE TRAIL

For George W. Bush, a Presidential campaign may be more secure than the oil industry

George W. Bush is used to disappointment. Every time he makes an appearance, it seems, someone walks up to him and charges, "You're not the *real* George Bush." But as the eldest son of the man he calls "our future President," he may be the next best thing.

George W. Bush of Harken Oil & Gas
Falling oil prices shattered his dream.

Still, Bush will probably never be mistaken for his famous father in one place: the Texas oil patch. It was there that the elder Bush made his fortune by founding Zapata Offshore Corp. In 1966, he took up politics and sold his stock in the company for just over $1 million. Had the younger Bush been as successful, he wouldn't now be sitting on the board of Harken Oil & Gas Inc. (#11), where he also serves as a consultant.

A famous name isn't much help in an industry rife with bankruptcies. The collapse of oil prices has created a buyer's market for such energy concerns as contract drillers and exploration companies. So far, Harken has merged a dozen failing concerns into a $421-million business. "These are distress situations, close to bankruptcy," says Mikel Faulkner, president and chief executive officer. "An awful lot of folks want to sell."

Among them Bush, who founded the predecessor to his Spectrum 7 Energy Corp. shortly after graduating from Harvard Business School in 1975. The company raised capital for finding and drilling new wells. But its prospects for outside capital completely dried up in 1986, when oil prices dropped about 50% during a six-month period. "We probably could have survived, but at best we would be treading water," admits Bush, 41, who made a failed bid for Congress in 1978.

After merging the company with Harken, Bush stayed to make sure his 16 employees found jobs. But, he discovered, "there's room for only one CEO. Initially, that was painful." With his dad's campaign heating up, Bush signed on as an adviser. "I like the candidate," he says. "And I believe in him." □

ATTENTION, K MART SHOPPERS

A new generation of retailers is underpricing the discounters

Those K mart shoppers addressed above are looking at a wider assortment of merchandise than ever, but they're paying the price for it. Increased overhead and higher prices help explain the reemergence of discounters offering a narrow range of brand-name products priced at least 30% less.

Seven of the fastest-growing public companies—including the top three—are profiting from the specialized-discounting boom. Searching for a VCR? Visit a Best Buy Co. outlet (#61). A blouse? Scan the racks at Ross Stores Inc. (#30). A porcelain figurine? Flip the channel to Home Shopping Network Inc. (#2). That discounted book you bought may have come through Advanced Marketing Services Inc. (#50).

Pioneers like K mart have grown to the point where they can maintain their margins only by upping price tags on brand names or stocking cheaper off brands. "These retailers are taking the hottest item in a category, or a hot category, and running with it," says Dennis Lamm, president of Entertainment Marketing Inc. (#1), which supplies home electronics and computer peripherals to discounters. There's no impending shortage of bargain hunters. □

PHOTOGRAPHS: LEFT, JEFFERY MACMILLAN; TOP, JEFF SLOCOMB

100

IS THERE A PATIENT IN THE HOUSE?

Keeping sick people out of the hospital is a healthy, growing business

R. Dale Ross isn't a doctor, but he talks like one. "I see none of the symptoms of maturity," says the chief executive officer of HMSS Inc. (#39), which provides home intravenous therapies. "But within a couple of years, those symptoms will emerge. We'll see more price sensitivity and more competition. This is still an infant industry."

Ross isn't the only one doting on this infant. The push toward outpatient and home health care is rising faster than a fever in flu season. That has given a booster to five companies on this year's INC. 100, each of which has tied its fortunes to keeping sick people out of hospitals. Continuing Care Associates Inc. (#31), for instance, rents and sells such equipment as wheelchairs and respiratory aids for home use. And a major portion of business at Staff Builders Inc. (#94) is providing personnel, including nurses and medical social workers, for home care.

Nurse for Care Plus **Treatments at home**

All of these companies spring from the same opportunity. "The reason we're here is because government and industry made up their minds that the cost of health care was rising too high," says Joel C. Gordon, chairman and CEO of Surgical Care Affiliates Inc. (#71), operator of outpatient surgical centers. In the early '80s, the government instituted a new system of medical reimbursement that encouraged hospitals to discharge patients quickly. Then businesses clamped down on spiraling health insurance costs.

Because of advances in anesthesia and surgical procedures, many patients can head home within a few hours of surgery. And the miniaturization of pumps, for instance, has made various home treatments possible. "Technology is making home health care a cost-efficient option," notes Bob L. Wood, CEO of Care Plus Inc. (#4), a provider of infusion therapies in the home.

In fact, an aging population should mean healthy growth for the entire industry. According to the U.S. Bureau of Census, the over-65 age group will nearly double as a percentage of total population over the next 40 years. "The average age is getting older," adds Wood. "That means strong projections for us." □

LINE ITEMS

■ Following revelations that the Soviets had placed listening devices in the walls of the new American Embassy in Moscow, Sahlen & Associates Inc. (#7) was hired to recruit and train guards for the construction site.

■ **Talk about putting your assets out of the reach of creditors: the cofounder of Interspec Inc. (#24), Edward Ray, managed the effort to build a nuclear-power supply for use on the moon by the Apollo astronauts. Half a dozen of the power units are still on the moon.**

■ If you watched the closing ceremonies of the 1984 Summer Olympic Games in Los Angeles, you saw a laser show put on by a subsidiary of Trimedyne Inc. (#43), which manufactures lasers used in surgery.

■ **After putting aside sculpture in favor of business, John Kuhns, CEO of Catalyst Energy Corp. (#19), is returning to his first love. He's converting a nineteenth-century carriage house on his Connecticut farm into a studio for his artwork.**

■ Women are rare in the top management ranks of INC. 100 companies, but not so at Intelligent Electronics Inc. (#48). The marketer of computer systems has women serving as treasurer, national sales manager, legal counsel, controller, purchasing manager—and warehouse manager.

■ **. . . And Surgical Care Affiliates (#71) has a nun on its board of directors.**

■ Ben & Jerry's Homemade Inc. (#86), of Waterbury, Vt., which makes premium ice cream, is working on establishing its first retail outlet in Moscow. Profits would help finance cultural exchanges between students from the United States and the Soviet Union.

■ **Consolidated Stores Corp. (#78), a closeout retailer, liquidated more than 5 million Rubik's Cubes when the fad died; now, the company is selling off Cabbage Patch Kids at fire-sale prices.**

■ The entire corporate staff of Modular Technology Inc. (#58), overseeing $31 million in sales, consists of CEO Frederick Goldberger, a financial officer, and a secretary.

■ **In 1980, Roger J. Sippl started Informix (#80) with a $20,000 equity investment from a banker, Elizabeth Salmon. In 1982, they married.**

■ To get exercise and reduce tension on the job, Lawrence J. Ellison, CEO of Oracle Corp. (#56), occasionally pedals the 24-mile round-trip to and from the office on his bicycle.

■ **Don't pick a fight with Stanton M. Pikus, CEO of Canterbury Educational Services (#51). He holds a black belt in Japanese karate, and is an instructor as well.**

■ Hawaii, Montana, Mississippi, North Dakota, South Dakota, and Rhode Island are the only states in the country that have never been home to an INC. 100 company.

■ **Asked in February who they would like to see as President, of the 86 INC. 100 CEOs who responded, 30% favored Robert Dole and 27% George Bush. Democratic candidates together attracted only 6% of the growth vote.**

■ Some 55% of responding INC. 100 CEOs do not expect the nation to experience a recession this year or next.

■ **Although Intermark Gaming International Inc. (#53) sells slot machines and other equipment to casinos, president John L. Walsh says he doesn't gamble.**

■ Most INC. 100 CEOs are American-born, but a handful are immigrants from Iran, India, Pakistan, and Vietnam.

Research assistance was provided by Connie Ahlstrom and Paul Thomas.

100

WAKE-UP CALL

EMC Corp.'s new incentive plan has its engineers burning the midnight oil

Norman Lourie asleep may come up with better ideas than most people do awake.

One morning a couple of years back, Lourie, the senior vice-president of engineering at EMC Corp. (#77) awoke with a solution to a serious problem plaguing the Hopkinton, Mass., company, which designs and manufactures computer-enhancement devices. Half of its projects were running late, which is a disastrous situation in an industry in which market windows aren't open very long.

EMC's executive staff struggled to come up with a meaningful incentive. Should they tie on-time performance to company profitability? That seemed too removed from individual projects.

Vice-president Norman Lourie of EMC
Incentives bring projects in on time.

Soon, Lourie had the answer: an ingenious incentive plan. At the beginning of each project, he considers its size and complexity and comes up with a royalty figure and a date upon which the product should be ready to market.

Then he specifies another date, which is usually 6 to 12 months after the first: the day upon which the engineers will *stop* receiving that royalty. The earlier the product starts selling, of course, the longer their royalty period. And for every week late or early, he'll lower or raise the royalty by 5% to 8%. "When we announced it, nobody thought it was a big deal," says Richard Egan, the company's chief executive officer. "But when the checks started coming in, you could see the lights staying on at night."

That's because some of EMC's 50 engineers have received bonus payments as high as $15,000. It's not surprising that only 10% of the projects now come in late; 20% are even being completed early. And the new system has helped the company maintain aftertax income of 20%. It all works so well, says Lourie, "It's like I dreamed it." □

HOW THE INC. 100 ARE SELECTED

The 1988 100 is the 10th annual ranking of the 100 fastest-growing publicly held smaller companies in America. Companies are ranked by the percentage increase in net sales (or total revenues) between 1983 and 1987.

□ To be considered for the INC. 100, each company must meet the following criteria:

1. The company is an independent corporation, not a subsidiary or division of another company. Regulated banks and utilities and holding companies are excluded.

2. The company was publicly held before the end of fiscal year 1987.

3. The company shows an operating/sales history of at least five years.

4. The company's 1987 sales exceeded its 1986 sales. Companies showing growth over the five-year period, but a decline in 1987 sales, are excluded.

5. The company's 1983 sales were at least $100,000, but no more than $25 million.

■ The INC. 100 research staff used company prospectuses, 10-Ks, annual reports, and various directories to maintain the in-house database of publicly held smaller companies. Using audited financial statements, researchers then ranked the top 100 companies.

■ An editorial team led by special projects editor Sara Baer-Sinnott and assistant research editor Deborah L. Weeks selected the 1988 INC. 100. The research was conducted by Connie Ahlstrom, Jeff Bienkowski, Mitchell Burd, Pat Cleary, Fraser Gibson, Kate Gilmore, Allison Jones, Christy Miller, Lisa Moretti, Paul Thomas, Becky Thorp, and Tica Williams. The chart was prepared by Deborah L. Weeks.

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PHOTOGRAPH: DILIP CHAUHAN

IN THE BLACK

When two INC. 100 companies are growing quickly in the same industry, why is one profitable and the other not?

BY TOM RICHMAN

FOR AS LONG AS INC. HAS BEEN PUBlishing a list of the 100 fastest-growing public companies, critics have been pointing out (with justification, to be sure) that growth isn't everything. Celebrating growth alone, they lecture us annually, overlooks and thereby demeans other characteristics people ought to examine in judging the success of a business—to begin with, its profitability. It's one thing to grow a business quickly, they say, but to earn at the same time—now *there's* a good trick.

▶ STORY PROPOSAL ◀

Breeze through the INC. 100 list, and you'll notice several instances of pairs of companies in the same industry reporting radically different earnings. They have so much in common: similar ages, markets, opportunities. They're both growing rapidly, which probably means they're doing something right. So why, if they started out with similar ideas, is one profitable and the other not? I decided to look at three of these mismatched pairs to see, if I could, what accounts for the difference. —T.R.

They're right. You can't tell it from our charts, but only a few of the companies on this year's list have reported a profit during each of the past five years, when they were doing their growing. The rest experienced losses in at least some of those years and 23 of them are still writing in red.

What's the difference? What makes one hypergrowth company profitable and another not? Obviously, differences exist among industries. Companies built around a single new product or new technology, for instance, usually find profits elusive until they can first create the product and then its market. It's often easier, in contrast, for a young service company to move quickly into the black.

But what about comparing the early profitability of companies in the same industry, in practically the same business? What accounts for the fact that one company can grow and earn simultaneously and another in the same industry cannot?

That's the case with at least three pairs of the '88 INC. 100. In each pair, one is the mirror image of the other. One is profitable, one is not. There are two power companies, two airlines, and two restaurant franchisors. What accounts for the differences between them?

■

TAKE THE TWO INDEPENDENT POWer companies for starters. Bonneville Pacific Corp. (#12) and Catalyst Energy Corp. (#19) aren't electric utilities as you normally think of those staid behemoths. (If they were, they surely wouldn't be on anybody's fastest-growing list.) Both were founded and grew up under PURPA, the 1978 Public Utilities Regulatory Policies Act, which says in effect that entrepreneurs may build power-generating plants and sell their electricity to regulated utilities, which must buy it at their own so-called avoided-cost price.

This avoided cost is the expense a utility would incur if it had to produce the power itself. If the utility is short on power and would have to build a new generating plant to meet demand, then the avoided-cost price it will pay for the independent's power is high. And that's been the case for the past half-dozen years. The independent-power industry began to expand in the early '80s, and some estimates have it growing to $60 billion in sales—largely at wholesale to the regulated utilities.

Bonneville Pacific is based in Salt Lake City, far removed from the deal-doers of Manhattan and their West Coast counterparts. In 1980 four founders together put up $160,000 to capitalize the company. Then they carefully and systematically went about locating suitable alternative-energy sites, hiring builders, arranging financing, and contracting to sell the power their plants would produce.

Its small equity base wouldn't allow the company to retain ownership of the highly leveraged projects it developed, so Bonneville sold the plants, usually to investors. It often continued to operate these plants, however, under contract with the buyer.

Over time, contract revenues plus profits on the sales of successive plants, as well as an initial public offering, helped the company build its equity base. As a result, it was able to undertake development of larger and larger projects. But its business discipline didn't change. Bonneville continued to watch its construction costs carefully, thereby building into its plants the widest possible gross margin between its own power-generation costs and the price that the power would fetch on the wholesale market. It is currently constructing a gas-fired cogeneration plant, for instance, that will cost $700 per kilowatt of capacity to build compared, says Bonneville managing director L. Wynn Johnson, with the utility industry's normal cost of $1,000 to $1,500 per kilowatt. More than once, chairman Raymond L. Hixson says, he and Johnson worked wrench in hand helping engineers bring a project in on schedule. Bonneville decorates its annual reports with photos of power plants, generators, and hydroelectric dams.

In contrast, at its midtown Manhattan high-rise quarters, Catalyst Energy has decorated two conference-room walls with framed tombstones and securities certificates. At this company, they talk deals.

Chief executive officer John Kuhns, with cigar and fancy suspenders, is in fact talking

about Catalyst's origins. "Three of us had left Salomon Brothers in 1979 to advise municipal utilities on financing. Then in 1981 I said, 'Look, we're making a decent living, but we're paying taxes. There are all kinds of tax advantages if we own these [independent power facilities].' It was an industry we already knew something about—not that investment bankers know about the utility business. They know about investment banking . . . [But] most people in the business didn't know any more than we did, so we said, 'Let's jump in.' "

He and his friends collectively put up $2 million (12 times Bonneville's initial equity) to launch Catalyst. But they never intended for the company to develop plants as Bonneville did. "We didn't hire engineers and do our own designs," Kuhns says, adding, "A lot of people thought of us as scavengers." Catalyst, as the name implies, brought its deals off by finding the financing. "We went out and found developers who were having trouble getting money. We got the money. They took a piece of the project, and we took the rest."

Catalyst started out bigger than Bonneville and grew much larger. It had '87 revenues of $411 million; Bonneville's were $38 million. It diversified geographically more than Bonneville, owning plants across the country, and it purchased a wider variety of plants. Catalyst owns, for instance, the old steam-generating plants serving downtown buildings in Boston and Philadelphia. Catalyst went public at $6 per share, and its stock hit a peak of $29. Bonneville's stock only rose to $14 from its $9 IPO price.

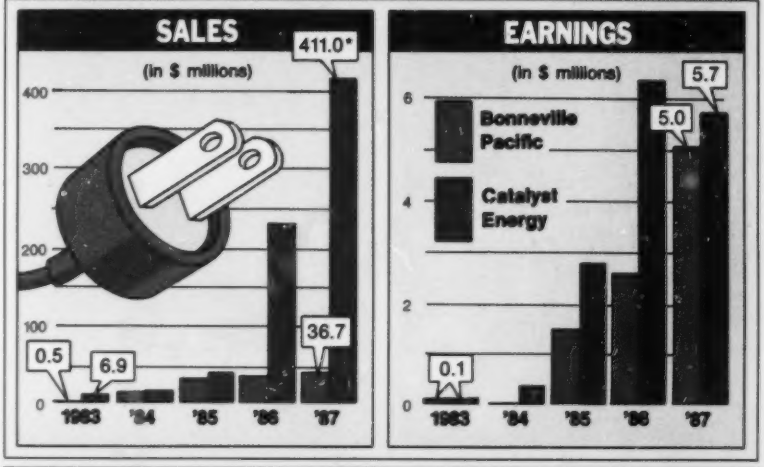
While Bonneville just finished its best year ever with earnings of $5 million, or 13.6% of sales, Catalyst eked out a 1.4% return in 1987. Still profitable? Yes, barely. But as a going concern, Catalyst's management has decided that the company has no future. Last year it was number one—right at the top of the INC. 100 list. But this year—poof! If events follow plan, within a couple of months Catalyst will go private and begin the process of liquidating itself. Soon it will be no more.

How come the better-equipped company that was first off the block couldn't finish the race? The answer goes to the heart of what separates the two companies: the relative importance that each accorded the several risks they both faced.

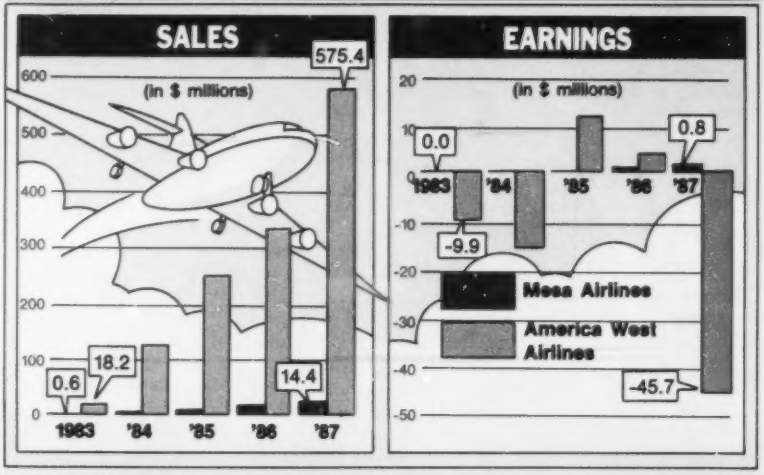
"Financing," Kuhns says, "was the key ingredient" in the projects Catalyst undertook. If it could finance a deal, it would do it. But that meant that the viability of the dea's it did rested primarily on two risk factors, neither of which Catalyst could control in the long run. The first was the tax laws, which until recently accorded these deals special treatment. The second was the

Each company grew quickly, but profitability didn't always follow.

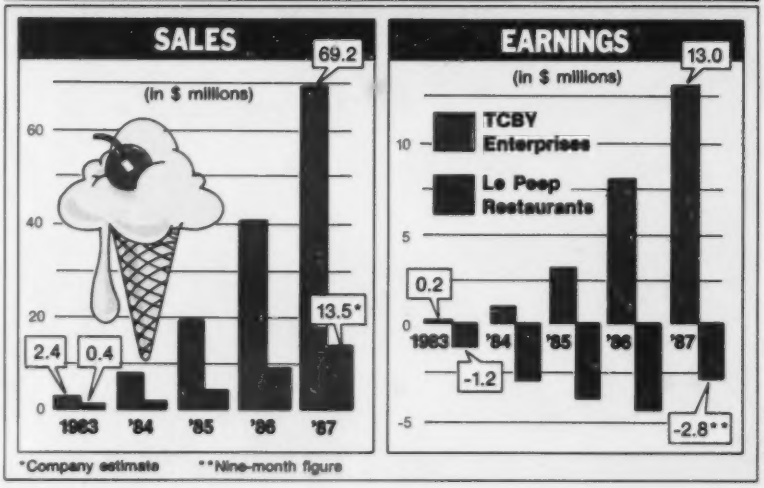
BONNEVILLE PACIFIC vs. CATALYST ENERGY



MESA AIRLINES vs. AMERICA WEST AIRLINES

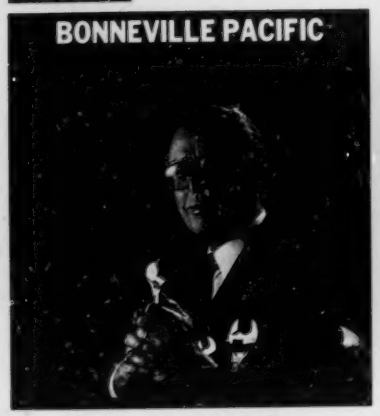


TCBY ENTERPRISES vs. LE PEEP RESTAURANTS

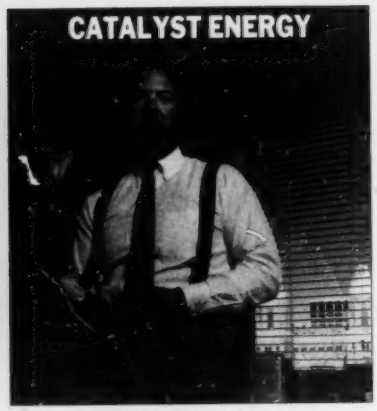


*Company estimate **Nine-month figure

DAVID MILLER



Chairman Raymond L. Hixson
Paring of costs paid off in the downturn.



CEO John Kuhns
Who lives by the deal, dies by the deal.

avoided-cost price its power would fetch.

Bonneville, on the other hand, put its primary emphasis on building plants that would generate power at the lowest possible cost. It couldn't control the two risk factors—tax laws and avoided-cost price. But the company could give itself a wide margin for accommodating change.

Tax laws did change, and a lot of newly constructed generating capacity caused a drop in avoided power costs. Bonneville's greater margins left it room to maneuver. "We never promoted the tax-shelter elements of plant ownership," says Hixson. "We sold only cash on cash returns. That way, when the tax laws changed [in 1986], Bonneville still had a marketable product."

On the other hand, some Catalyst plants were no longer profitable. Also, unexpected costs cropped up in connection with its acquisition of the Boston and Philadelphia steam plants. And then Black Monday knocked Catalyst's stock price from $12.25 to $3.75, making it essentially worthless as currency for new deals. "Our growth comes from assets under ownership," says Kuhns. "This company has grown because of deals. Take away the deal, and we're back to being a regular utility," which is not a very exciting business these days. Investors don't put the same premium on the stock of a company growing 10% a year as they do on one exploding by hundreds of percentage points annually. So Catalyst is dead in the water, worth, says Kuhns, only what it can get for the assets.

Who lives by the deal, dies by the deal. RIP Catalyst. Bonneville, in contrast, survives and, so far, thrives.

■

ED BEAUVAIS MAY BE RIGHT. HIS company, America West Airlines Inc. (#42), may do just fine, as he says it will, once it has time to exploit its so-called niche. Unfortunately for Beauvais and America West, the airline Beauvais envisioned and equipped with shiny new Boeing 737s and 757s is too big for the niche it was built to serve. To support its size and Beauvais's ambition, America West has had to expand, which means that it's now bumping heads with major airlines on their bread-and-butter routes. Further, the majors have decided they'd like a piece of America West's niche, which lies smack in the middle of the growing Southwest. It's getting pretty crowded. The consequence of the expansion and competition is that America West lost $46 million on revenues of $575 million last year.

Like America West, Mesa Airlines Inc. (#59), based in Farmington, N.Mex., has grown. It now makes 15 commuter runs a day between Farmington and Albuquerque. And like America West, Mesa has expanded its route system. Its planes fly as far north as Wyoming, into southern New Mexico, and as far east as Dallas, which at 400 miles is its longest run. But unlike America West, Mesa has been profitable, except for one year, as it has grown. Last year it earned $790,000 on revenues of $14.4 million. That's because, unlike Beauvais, Mesa's founder, Larry Risley, didn't have the capital or the sophistication to fight the majors.

Instead, Risley looks for routes where *only* small (19-passenger) planes can turn a profit, and he steels himself against the inevitable competitor even in that niche by paying relentless attention to cost. When challenged on a route, Mesa drops its price. The current $48 fare between Farmington and Albuquerque has fallen as low as $24 when challengers have appeared. "When I'm breaking even," says Risley, "my competitor is losing his shirt. That's my advantage." He's building a computerized management accounting system that eventually will allow him to calculate the previous day's P&L for any aircraft or any route.

But his smartest move, Risley thinks, is something he hasn't done. "The greatest temptation to any commuter airline," he says, "is to be a major airline, not to be satisfied with filling its niche. Every community you serve would rather be served by a 747. And the manufacturers make it so easy to get the equipment. I shouldn't have bought that last 19-passenger plane. A 13-passenger is what I needed. I let my ego overcome my better judgment."

The difference between the two companies? Beauvais and Risley.

Beauvais, America West's founder and CEO, was an airline-industry economist and consultant for 11 years before he collected the nucleus of a management team in 1981 and raised $20 million to start an airline, for which he clearly had big plans from the outset. His niche was really just a wedge that Beauvais could use to ease America West into the airline big leagues.

Risley, on the other hand, had no problem thinking small. The big leagues weren't for him. About the time Beauvais was raising $20 million, Risley, a mechanic running an aircraft-maintenance company at the Farmington airport, pledged his house and a used nine-passenger airplane as security for a $140,000 bank loan to get Mesa airborne. The plane cost $125,000. The other

Founder Larry Risley
Finding a niche and holding to it

CEO Ed Beauvais
He thought big from the start.

PHOTOGRAPHS: TOP LEFT, DON STEVENSON; RIGHT, JOHN MADERE; BOTTOM LEFT AND RIGHT, DON STEVENSON

$15,000 was working capital. His biggest ambition at the time was to operate a shuttle service—four or five round-trips per day—between Farmington and Albuquerque, 148 miles apart.

Looking at both companies today, you'd have to award the prize for good sense to Risley. Mesa's growth is a classic case study in the right way to develop and control a market niche. If he keeps it up, Risley will have a nice little business some day. Beauvais, by comparison, was foolish. He'll probably fail. But suppose he doesn't; in that case he'll be running a major airline and one of the decade's most successful growth companies. Who will be the hero then?

At America West, there's much at risk,
And a great deal more to gain.
The rewards of prudence are more secure,
But daring tempts with fame.

■

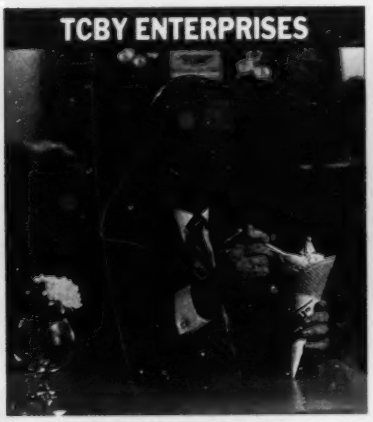
IN THE RESTAURANT FRANCHISING business, daring seems no part of Frank Hickingbotham's plan. But that doesn't mean his company hasn't achieved size.

It began, the company legend goes, in Little Rock in 1981 when the founder, who had recently sold another business, opened one small frozen-yogurt shop in a suburban shopping center. That's all he wanted: just one store. He called it This Can't Be Yogurt, eventually abbreviated to TCBY. But soon the line was trailing out the door. When was he going to open another store? people wanted to know. And, other people asked, could they buy a franchise? So *Mister* Hickingbotham—he's *Mister* to everyone in the company, including son Herren, the executive vice-president—commissioned a study, which told him that he could successfully franchise the concept. He started the next year, 1982, and today TCBY (#49) is the largest of several frozen-yogurt chains in the country, expecting to open store number 1,200 by year end.

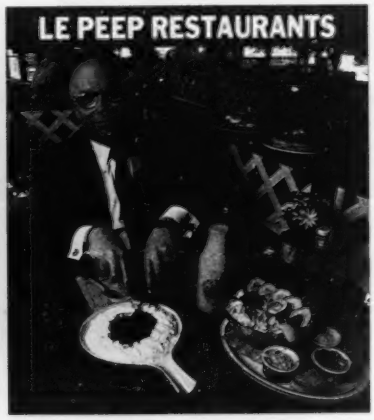
Hickingbotham has kept the concept simple. The stores sell only frozen yogurt in lots of day-glo colors with flavors to match and sweet toppings or mix-ins. Just pour the yogurt from the container it comes in into the dispensing machine.

At TCBY, they take frozen yogurt very seriously, but the company makes up in attention to detail what its executives appear to lack in humor. *Mister* Hickingbotham has built a vertically integrated corporate machine with an army of field managers, and he knows how to extract a profit from the business at every conceivable level. TCBY Enterprises Inc. sells its franchisees the equipment and consumables they need to get into the frozen-yogurt business. It sells them the yogurt it manufactures in a Texas plant, and then collects a royalty on their gross sales. Later, if a franchisee wants to grow, TCBY will finance the expansion.

The company emphasizes giving the customer consistency. "McDonald's doesn't claim to have the *best* hamburgers in the world," says Gale Law, TCBY's chief financial officer, "but you can go into a McDonald's anywhere and know exactly what you're going to get." It's supposed to be the same at TCBY. "If franchisees want to be creative," Law adds, "then they should have been independent businessmen."



Chairman Frank Hickingbotham
Emphasizing consistency over creativity



CEO Allen Bernstein
Does the niche he envisions really exist?

The no-nonsense yogurt company is very profitable. It earned $13 million on revenues of $69 million last year, and it has been profitable since start-up. "Mr. Hickingbotham," says Law, "didn't know there was such a thing as start-up losses. He didn't know you could do that and survive."

But in Syosset, N.Y., Allen Bernstein, full of smiles and enthusiasm, with a waistline that testifies to frequent product sampling, is surviving and having a wonderful time despite the losses that his young chain, Le Peep Restaurants Inc. (#36), has produced thus far. "It was a foregone conclusion that we would lose money for a few years," Bernstein says, almost dismissing the subject. Last year the company lost $2.8 million (in its first nine months) on revenues of $13.5 million. Yes, he says, "we *are* in business to make money. We believe our results will be significantly better in 1988." But that's not the stuff Bernstein wants to talk about. He gets a lot more animated talking about restaurants and food.

"What if you want to meet someone, socially or for business, before 11 a.m.? Where," he demands, "are you going to go? Denny's? That, or you could spend 60 bucks at the Ritz Carlton."

Bernstein's proposition to the market is that Le Peep can fill the morning niche with a sit-down breakfast restaurant serving artfully presented $4 to $6 entrées that you'd never make at home. It's not just the food he's betting on, although the food has to be good if Le Peep is going to work. But over and above that, he's betting that people want a place to go in the morning. He's presupposing that the niche he wants to fill really exists. "At lunch," says Bernstein, "we're not changing anyone's lifestyle." But that's exactly what he'll have to do at breakfast to succeed. And it's not a simple gimmick—an egg on a muffin—that he's relying on, but a line of entrées that are relatively difficult to make.

Any similarity between the Le Peep and TCBY strategies ends with the fact that both chains sell food. "We run restaurants. We're not in the manufacturing or the trucking business," says Bernstein. The only thing he wants from his franchisees is 5% of gross sales. He doesn't want to sell them eggs. "It's also a quality-of-life issue. If the Le Peep truck doesn't show up," says Bernstein, "you'd be upset with me. Now, you're just mad at the distributor. I want as few areas for potential conflict as possible."

Where TCBY strives for simplicity—it's hard to imagine who *couldn't* run a TCBY store—Le Peep won't sell a franchise to anyone but an experienced chain operator, or to someone who has such a person as at least a 25% equity partner. Its concept is that difficult to execute.

But the losses? If Le Peep is such a good idea . . .

The restaurants are profitable, Bernstein says, even though the franchisor is not. But profits will come, he assures, when enough new restaurants come on line.

Persuasive?

Not completely. But suppose he's right and the idea really does work. He'll have done more than build a company, which is no small feat by itself, goodness knows. He'll have created something new, something fun, something at least as significant as another positive income statement, something we didn't have before. Bernstein's enjoying himself. It's no substitute for profitability, to be sure, but a business is often the richer for it. □

Research assistance was provided by Connie Ahlstrom, Amy Schulman, Paul Thomas, and Deborah L. Weeks.

PHOTOGRAPHS: LEFT, STEWART CHARLES COHEN; RIGHT, STEVEN H. BEGLEITER

▶ STORY PROPOSAL ◀

Even the smartest growth-sector money managers failed to outperform the Dow in 1987—but no one could convincingly explain why. Growth stocks were the ones that jumped out in front of blue chips earlier in the '80s. Not that the behavior of stocks ever is rational, but there has to be some reason for recent disdain. Since no consensus has emerged from Wall Street pros, let me throw in a few conjectures of my own. Among them: P/E's don't mean much, investors don't scrutinize balance sheets, and the short-selling rules on NASDAQ put small-cap stocks at a disadvantage. ***—R.A.M.***

ATTACK OF THE BEARS

Why did the small-cap stocks lose their luster?

BY ROBERT A. MAMIS

IF COMMON STOCKS WERE THE ONLY equity play in town—instead of having to vie with options and futures and other capital-diverting mutants—they'd support price-to-earnings ratios well over the abject 15.9 to which the average Dow Jones Industrial was reduced last October. Even the earnings multiple past 20 that the Dow reached before its autumnal fall is piddling compared to the Tokyo stock exchange's Nikkei index, whose average P/E hovers at 50. And *that's* cheap: the P/E of Nippon Telegraph & Telephone Corp., a new public issue last year, roared past 250 while NT&T was taking its place as the world's biggest public company, measured by market value. Yet for all their mighty multiples, Japanese stocks haven't hit the skids.

Massive corporations attract the lion's share of attention in Japan, whose naturally cautious investors prefer names they know even if they have to pay up for them. On *our* shores, though, no matter how obscure the enterprises, no matter whether they're traded on the NYSE, Amex, NASDAQ, or in the pink sheets, every day somebody buys shares in just about every publicly traded company in the country. Willingness to take a chance is why we can bring out dozens of initial public offerings in a given month, some of which are nothing but empty shells in search of yet-to-be-determined contents. The quantity of domestic common-stock issues handled by the NASDAQ system alone has nearly doubled in 10 years, from 2,346 in 1977 to 4,330 in '87. Add in 1,600 from the NYSE and 900 from the Amex, and you have a sea of 7,000 smiling public faces, each begging to be bought.

Of course, that spreads available money thinner and thinner, which is one reason our bull market finally ran out of steam—one day the buyers evaporated, just as market-makers complained. Why else were so many mostly fast-growth, mostly thinly capitalized, mostly over-the-counter companies relegated to the coal bin last fall? Especially inasmuch as some sported balance sheets stronger than General Motors'? And why, humbled as they already had been before the crash, were these secondary stocks treated more cruelly than their seasoned brethren, when many could boast price-to-book-value ratios half that of the Standard & Poor's 400?

These consequences were hardly imagined when the fast-growth crowd was in the bull market's avant-garde not long ago, the top-performing 1981 and 1983 INC. 100s gaining 76% and 72% respectively. But the companies themselves weren't necessarily to blame for the slide to the rear. Take Seagate Technology, a typical OTC casualty that fell from a yearly high of more than $45 to less than $10 in the aftermath of Black Monday. At that time, the company showed $395 million in cash on its books. Thus, with 48.8 million shares outstanding, for $10 a buyer would have been purchasing $8.09 worth of cash per share. The remaining $1.91 would have gone into owning the rest of the thriving disk-drive maker, whose book value had been reported at more than $7 per share. For the $3 or so that Seagate was selling over book value, a

HOW THE INC. 100 STACK UP

To calculate the collective 12-month stock-market fortunes of its annual ranking, INC. goes back a year and "spends" $100 on each issue at the closing price then prevailing. That academic exercise determines the number of shares fancifully invested in, factored for stock splits and stock dividends declared within the period (but not for cash payouts, which among such fast growers are assumed to be negligible). For better or worse, the shares are "sold" exactly one year later, and the profits or losses simply toted up and divided by 100. In the case of stocks traded over the counter, of which there were 86 this time (along with 6 on the NYSE and 8 on the Amex), the closing bid is used as a basis at both ends of the transaction. For IPOs that came out within the period—16 this year—the first open-market bid is used.

For the fourth time in five years, the INC. 100 trails the popular averages. But it might have been worse: what if our whimsical indulgence had to pay brokerage commissions?

RELATIVE MARKET PERFORMANCE

DJI	2,220.47	2,070.46	–6.76
S&P 400	321.19	308.91	–3.85
AMEX	321.75	288.91	–10.21
NASD IND'LS	442.30	374.61	–15.30
INC. 100	100.00	81.05	–18.95

INC. 100
MARKET PERFORMANCE

1. Baker Communications (BAKR/O)	62	$1.75	$4.00	$228.57
2. Oracle (ORCL/O)[1]	56	38.25	15.13	158.17
3. Clean Harbors (CLHB/O)[2]	69	9.00	13.25	147.22
4. Diagonal Data (DDAT/O)	81	2.75	4.00	145.45
5. Com Systems (CMSI/O)	55	1.13	1.63	144.44
6. Harken Oil & Gas (HOGI/O)	11	3.00	4.31	143.75
7. Amre (AMM/N)[3]	84	28.00	20.13	143.75
8. Informix (IFMX/O)	80	14.50	20.50	141.38
9. L.A. Gear (LAGR/O)	90	11.50	16.13	140.22
10. Vipont Pharmaceutical (VLAB/O)	10	13.25	18.50	139.62
11. Canterbury Educational Services (SKIL/O)	51	0.75	1.00	133.33
12. First World Cheese (FWCH/O)	40	3.75	4.88	130.00
13. Security Tag Systems (STAG/O)	29	1.88	2.44	130.00
14. Surgical Care Affiliates (SCAF/O)	71	7.25	9.25	127.59
15. Integrated Device Technology (IDTI/O)[4]	79	15.25	12.88	126.64
16. Ballard Medical Products (BMED/O)	18	12.00	15.00	125.00
17. Manufactured Homes (MNH/A)	85	11.63	14.50	124.73
18. Ben & Jerry's Homemade (BJICA/O)[5]	86	18.25	15.00	123.29
19. AutoSpa (LUBE/O)	57	1.94	2.38	122.58
20. Code-Alarm (CODL/O)[6]	95	6.50	7.75	119.23
21. Sun Microsystems (SUNW/O)	17	28.13	32.75	116.44
22. Price Communications (PR/A)[7]	74	11.50	8.25	112.09
23. Samna (SMNA/O)[8]	22	6.75	7.50	111.11
24. PC Quote (PCQT/O)	98	4.63	5.13	110.81
25. Novell (NOVL/O)[9]	41	38.25	21.00	109.80
26. Acuson (ACSN/O)	35	18.50	19.50	105.41
27. Datarex (DRX/A)	28	13.75	14.38	104.55
28. Microcom (MNPI/O)[10]	64	17.25	17.75	102.90
29. Trimedyne (TMED/O)	43	16.50	16.75	101.52
30. HMSS (HMSS/O)[11]	39	17.25	17.50	101.45
31. King World Productions (KWP/N)	45	20.88	20.88	100.00
32. Expeditors International (EXPD/O)	26	15.75	15.50	98.41
33. System Software Associates (SSAX/O)	23	15.50	15.25	98.39
34. Staff Builders (SBLI/O)	94	6.00	5.88	97.92
35. Linear Technology (LLTC/O)	9	11.50	11.00	95.65
36. Sahlen & Associates (SALN/O)	7	2.63	2.50	95.24
37. Landmark American (LCO/A)[12]	54	3.00	3.50	93.33
38. 3Com (COMS/O)	65	22.88	21.00	91.80
39. Modular Technology (MTIK/O)	58	2.75	2.50	90.91
40. Amgen (AMGN/O)	67	36.75	33.25	90.48
41. Encore Computer (ENCC/O)	16	2.94	2.56	87.23
42. ECAD (ECAD/O)[6]	46	8.50	7.38	86.76
43. Advanced Marketing Services (ADMS/O)[13]	50	13.25	11.25	84.91
44. Tech Data (TECD/O)[14]	44	20.00	11.00	82.50
45. Massachusetts Computer (MSCP/O)	52	8.50	7.00	82.35
46. Sigma Designs (SIGM/O)[15]	27	33.25	13.50	81.20
47. Bio-logic Systems (BLSC/O)	89	7.00	5.63	80.36
48. Ross Stores (ROST/O)	30	7.75	6.00	77.42
49. Jacor Communications (JCOR/O)	68	6.88	5.25	76.36
50. Interspec (ISPC/O)[6]	24	11.50	8.75	76.09
51. Cerner (CERN/O)	60	$22.25	$16.75	$75.28
52. Bonneville Pacific (BPCO/O)	12	9.75	7.13	73.08
53. Intermark Gaming International (IGII/O)	53	4.63	3.38	72.97
54. Neeco (NEEC/O)	63	18.50	13.50	72.97
55. Vestar (VSTR/O)	96	9.75	7.00	71.79
56. Intelligent Electronics (INEL/O)[6]	48	10.00	7.13	71.25
57. TCBY Enterprises (TCBY/O)[16]	49	18.75	8.75	70.00
58. Excelan (EXLN/O)	13	15.75	11.00	69.84
59. MicroAge (MICA/O)[13]	32	10.25	7.13	69.51
60. Vivigen (VIVI/O)	99	8.50	5.88	69.12
61. Osicom Technologies (OSIC/O)[6]	6	7.25	5.00	68.97
62. Warehouse Club (WCLB/O)	3	3.63	2.50	68.97
63. HealthWays Systems (HWSI/O)	87	5.88	3.88	65.96
64. General Parametrics (GPAR/O)	15	5.50	3.50	63.64
65. Plant Genetics (PGEN/O)[6]	73	9.50	6.00	63.16
66. V-Band (VBAN/O)	97	27.50	17.00	61.82
67. Nu Horizons Electronics (NUH/A)	75	5.13	3.13	60.98
68. United HealthCare (UNIH/O)	47	7.63	4.63	60.66
69. Le Peep Restaurants (LPEP/O)	36	4.00	2.38	59.38
70. Telematics International (TMAX/O)[17]	21	14.75	8.38	56.78
71. Barr's Industries (BRRS/O)	34	17.13	9.63	56.20
72. American City Business Journals (AMBJ/O)	37	24.50	13.75	56.12
73. America West Airlines (AWAL/O)	42	10.75	6.00	55.81
74. Domain Technology (DOMN/O)[18]	5	10.00	5.50	55.00
75. Calgene (CGNE/O)	70	12.75	7.00	54.90
76. Businessland (BLI/N)	20	16.75	9.13	54.48
77. Mesa Airlines (MESL/O)[17]	59	8.00	4.00	50.00
78. North Atlantic Technologies (NATT/O)	93	1.00	0.50	50.00
79. AST Research (ASTA/O)	88	20.50	9.50	46.34
80. Insituform Southeast (ISEC/O)	66	7.25	3.13	43.10
81. Patten (PAT/N)[19]	83	19.38	5.13	39.68
82. Bio-Technology General (BTGC/O)	92	17.25	6.50	37.68
83. Catalyst Energy (CE/N)	19	26.00	9.63	37.02
84. Nu Med (NUMS/O)	33	6.13	2.25	36.73
85. EMC (EMC/N)[20]	77	27.00	14.50	35.80
86. Sooner Defense of Florida (SOON/O)	76	5.38	1.88	34.88
87. Care Plus (CPLS/O)[21]	4	1.28	3.00	33.45
88. Impact Systems (MPAC/O)[6]	72	8.75	2.88	32.86
89. Best Buy (BBY/N)	61	22.50	7.38	32.78
90. Consolidated Stores (CNS/A)	78	16.25	5.13	31.54
91. Entertainment Marketing (EM/A)	1	14.00	4.38	31.25
92. IntelliCorp (INAI/O)	38	9.50	2.88	30.26
93. Brentwood Instruments (BRWD/O)	82	3.25	0.88	26.92
94. Gateway Communications (GWAY/O)	8	9.88	2.63	26.58
95. P.A.M. Transportation Services (PTSI/O)	100	15.25	4.00	26.23
96. University Genetics (UGEN/O)	91	1.69	0.44	25.93
97. National Healthcare (NHCI/O)	14	2.63	0.63	23.81
98. New World Pictures (NWE/A)	25	11.00	2.50	22.73
99. Home Shopping Network (HSN/O)	2	32.75	6.00	18.32
100. Continuing Care (CONC/O)	31	3.75	0.50	13.33

CHART TYPESET BY B.P.E. GRAPHICS

buyer also acquired the potential to exceed the $2.61 in per-share earnings reported for Seagate's last 12 months.

When a stock such as Seagate plummets, a lot of people stand to lose a lot of money, and too bad for *their* net worth. But in ways that are not so immediate, the effect can be far-ranging. A competing company may lure away key employees by proffering more promising stock options. A proposed acquisition may require out-of-pocket cash or even fail if an exchange of equity doesn't add up. A stock or bond offering will bring in less capital and will be harder to sell. Once institutions become disenchanted, they are hard to bring back, and the stock price will take longer to recover. And private companies that rely on public-company P/Es as the basis for appraisals will, *ipso facto*, be worth less.

Ask a dozen experts why small growth stocks have been performing relatively badly, and you'll get six hems and six haws. One explanation: come a recession, some immature companies will perish; betting on which ones won't is too risky. A second: the '84 to '87 bull leg was foreign driven, and foreigners prefer dividend-payers, which growth stocks aren't. Or "baskets" of computerized trading programs contain only stocks with lots of float; hence secondary stocks get left out of the action. Or fear of illiquidity caused by meager float. Or unreliable OTC market making. And so on.

As plausible a cause as any for the stagnation of small-cap stocks is the premium the market had been demanding for earnings growth. P/Es got so high that investors in growth situations no longer dared relate them to *this* year's earnings. They were driven to couch the multiple in terms of predicted earnings a few years away, making their purchase appear more prudent.

Even if earnings continued up, the increments did not always stick to the anticipated pace—at least not reliably enough to keep many a money manager from looking foolish a few quarters down the road. When it was around $50 in early '87, Home Shopping Network Inc. (HSN) had a P/E of over 150 on earnings of 33¢ a share. But who cared? At the rate of its earnings growth—50% a year—in three years $50 would represent a palatable multiple of 45. Sure enough, HSN, 1987's #1 stock performer on the INC. 100, announced *increased* earnings in March 1987. But in response the stock plummeted 19%, a mini-meltdown that portended things to come. Why the panic? Because, as *The Wall Street Journal* offhandedly noted, "analysts apparently had expected a more dramatic rise." HSN closed out the year at 5¾.

As an investment guide, the P/E ratio did not come into widespread reference until 1972, when newspaper stock tables began listing them alongside the name of each company. Shareholders liked the simple statistic because it was easy to calculate

CAPITAL LOSSES

'Investors' in the INC. 100 would have had a very bad year indeed

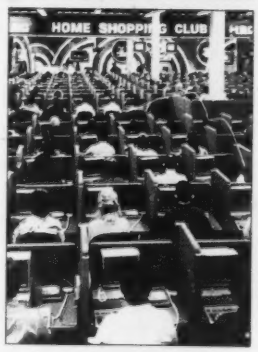
Did all-natural French vanilla gain 23.3% in Tokyo? Did health cheese jump 30% in Hong Kong? Was a London prefab housemaker up 24.7%? Or was some company in Korea ahead 22.6% thanks mainly to drive-in lube jobs? Only in America. The well-trod corner of Wall and Broad is still paved with gold—except it was harder to pry up the bricks last year.

Even so, on the current INC. 100 list are five initial public offerings that dug for it and won. Not bad in a 12-month period that witnessed the worst butchery of a bull since Manolete hung up his sword. Unfortunately for investors, the list's 11 other IPOs lost ground. Not that there was a greater proportion of gainers among the veteran companies, either, but 30 profitable plays out of 100 seems tolerable, all things considered.

One thing that in good faith has to be considered, regretfully, is that a solid 23 of the 30 Dow Jones Industrials posted gains in the same interval that a solid 70 of the 100 INC. industrials didn't. The DJI declined on paper along with INC. and everyone else, to be sure, but that's because it is weighted, with each component's relative capitalization taken into account. Calculated simply like the INC. 100 (see box, "How the INC. 100 Stack Up," page 124), as an unweighted average that suggests how a real investment actually would have fared, the average Dow stock *gained* 10%, compared with INC.'s losing 19%. That's a disturbing 29 percentage point spread between blue chips and baby growths.

But maybe INC.'s index would have gained, too, if we also weighed the significance of a price change in an issue with a million shares versus one with 10 million. And then readjusted the figure for splits and stock dividends, of which there were 15, including two companies who did it twice and three who reverse-split. Or if INC., like Dow Jones, could arbitrarily drop a component it decided wasn't pertinent to its universe. One TV peddler of cubic zirconias would seem to be plenty, but INC. doesn't pick 'em, it only ranks 'em.

Lucky for us, too, as it happens: the least likely candidate for inclusion in anyone's stock index turned out to be INC.'s standout performer, Baker Communications. The developer and publisher of free community newspapers finished 70 percentage points ahead of second-place Oracle, a developer and seller of software. Baker's stock more than doubled, although shareholders hadn't seen a profit in five years or more—a highly creditable performance, considering the Street's demand for earnings histories.



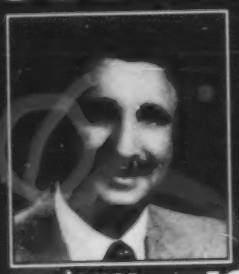
Baker Communications versus Home Shopping Network
Big win, no earnings; no win, big earnings

On the other hand, Home Shopping Network (HSN), 1987's top gainer at 1,000%, *has* shown a profit in each of its past five years, and has backed up that trend with sufficient sales growth to place it second among this year's revenue-producers. Yet, despite so positive a record, HSN came in 99th as a stock-market performer, pathetically dropping 81.7%.

It's in the INC. 100's nature that entrants can come and go according to incremental rates of sales. But those rates become mathematically impossible to maintain as companies get bigger. If they weren't arithmetically forced out of the nest just because some fledgling starting at a lower basis demanded room, the components of our proprietary average might boast big overall winners like the DJI does. Apple Computer, Lotus Development, Liz Claiborne, and Cray Research are all former 100 members, to name a few stalwarts. Then again, that same index could also find itself nursing such overall big losers as ADAC Laboratories, Kaypro, International Game Technology, and Thousand Trails—each an alumnus fallen on hard times.

Oh, well. One oughtn't to demand consistency from so independent-minded a bunch.

Are you serious about SUCCESS?



James Sirbasku IS!

Twenty two years ago I was making a modest living as a butcher in a meat packing plant in Minnesota. My father had been a meat cutter as was his father. Naturally, I thought I was in the place I ought to be. But deep down inside I felt that surely there had to be more to life than lugging sides of wet beef and cold feet.

One day I was attracted to an advertisement with the headline, "Think and Grow Rich." I answered the ad. This was my introduction to a company called SMI, its programs and its principles. Since that day, everything in my life has totally changed—forever.

TODAY

I'm the president of the company. It was not easy and it didn't happen overnight, it didn't happen without a lot of hard work. But, the point is, it did happen. Proof positive that anything is possible if you have the right goal-directed attitudes. That is what SMI is all about; changing people's attitudes.

Please, send for the free tape. Listen to it a few times. The message is timeless. Soon you will start to understand what I did over twenty years ago. Believe me, as a man who went from being a butcher to being the president of a multinational company with personal assets in the millions, I am a firm believer in using what I sell. I use the principles outlined on this tape every day of my life.

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and seemed meaningful; companies took to it because it determined the price at which they could issue stock. But there's no rule that dictates what P/E multiples ought to be—so much for a growth company, so much for one whose stock moves quickly, so much for a dividend payer, and so on. You make them up as you go: if IBM's P/E is 13, and Apple's is 25, now what? Sell Apple? Buy IBM? Is Sun Microsystems a contender at 27? And how to view Entertainment Marketing, this year's #1 INC. 100 company (see page 92), which showed a loss last October and whose P/E, therefore, was meaningless.

On the other hand, there'd be something to get your teeth into if the elusive "P" part of the ratio were defined more concretely as, say, price minus book value. In that case, at $10 Seagate's P/E would shrink to a mere 1.15. Indeed, in the mayhem after the meltdown, a few stocks were selling below both their cash *and* their book value per share. The trend among some analysts is to refine the P/E concept to extracts that are closer to the heart of a balance sheet—discretionary cash flow per share to earnings, for one example that's not apt to appear in tomorrow's stock tables. Since discretionary cash flow is that which is in excess of what is needed to stay in business, it is more a measure of a company's ability to generate cash in hard times than of its ability to grow in good.

An additional pressure on small-cap stocks is that the '80s have become the era of performance. Gone are the go-gos and gunslingers of prior decades, who would gobble up chancy issues in return for a crack at the big score. Now, the measure of proficiency for institutional portfolios is based on the broad averages; a money manager who doesn't perform as well as the S&P 400 not only loses face, but possibly loses job as well. It's safest not to truck with the mercurial small-cap crowd; if you stick absolutely with S&P's solid citizens, the boss absolutely can't fire you.

Despite the grim reaper's pre-Halloween visit, last year the S&P 400 industrials ended up with a respectable gain of 5.9%. Not many equity funds performed that well, however. For example, Fidelity's Magellan Fund, over the past 10 years the country's top-gaining domestic equity fund, was down 1% in 1987. More to the small-company point, Fidelity's OTC portfolio, ahead 68.9% in 1985, dropped 11.1% in '87. "Small-company growth" has become something of a contradiction, and with cause: last fall's worst-performing mutual investments—off some 33%—were those that specialize in small-company growth.

Even if it turns out there is no recession and business stays healthy, October's scare will likely keep stock prices in check. Not all of them, perhaps. The freefall carried prices too far down even for the small-cap stocks, many of which rebounded in the first three months of '88. Novell, which had been driven down to $12, snapped back to its precrash level of $25.50; ditto 3Com, from under $13 to an unmelted $22. And our buyer who chanced Seagate at $10 in October could have sold it above $22 in March—even so, only about half what it fetched the previous summer.

Now, there's yet another downward force to be reckoned with. A number of new or revamped mutual funds have charters that allow them to sell short. (A short sale is the opposite of a long purchase; in it, an investor bets on a decline in the price of a stock, rather than an advance.) No getting stuck on the long side of equities for today's aggressive funds. And where's the most likely place to establish a quick short position? NASDAQ, the short-seller's paradise.

In reforming the financial markets after the '29 crash, the Securities and Exchange Commission ruled that to sell a stock short, the sale had to take place at a price that was higher than the previous price. The so-called "tick" rule was highly effective (until the SEC arbitrarily exempted computer programs in 1986) in preventing greedy short-sellers from indiscriminately piling on more downward pressure to already falling stock prices. But because it was then technically unfeasible, the OTC was excluded. Although its electronic quotation system has now made upticks recognizable, to this day anyone can sell short any stock on NASDAQ in even the most virulent decline.

And with devastating effect, if there's anything to a federal suit filed in February by Occupational Urgent Care Health Systems Inc. (OUCH), in Sacramento. The company charges that from November 1986 through December '87, its stock, traded on NASDAQ, was the target of an old-fashioned bear raid—the kind that the uptick rule all but eliminated from listed exchanges. In this case, the alleged perpetrators—some people at a securities brokerage—were supposed to have taken an unusually large short position during that period, and then to have scattered nasty rumors not only into the market, but among potential OUCH customers, intending to drive the company out of business. If all went negatively well, eventually OUCH stock would have been rendered worthless and the shorts would cash out effortlessly at close to 100% profit.

Whether or not this suit has merit, it is a reminder that the capability of any outsider—arbitrageur, mutual fund manager, or mischief-maker—to sell short with impunity threatens every OTC company to some degree. Marginal stocks can be made to look weak, declines can be turned into wholesale butchery, and such malevolent schemes as the one that allegedly befell OUCH could be sprung on any number of victims. Given the Boeskys of this world, that ought to be frightening enough to give the SEC pause. □

HANDS ON

A Manager's Notebook

OPERATIONS

MONEY BACK

Thinking of exporting a product with some imported components? Be sure to ask your customs broker about the U.S. Customs Service's duty-drawback program. Under duty drawback, an exporter can get a refund for 99% of the duty paid on the imported item—even if someone else did the importing.

Example: Carstab Products, a $55-million chemical company in Reading, Ohio, imports an acid from Germany that it uses in making plastic products. Carstab then exports $12 million of its finished product all over the world—and gets back all but 1% of the duties paid on the acid in the exports. That refund amounted to about $50,000 last year.

"Duty drawback has been around since 1789," says Harold Lemesh, chief of the liquidation branch of the San Francisco Customs District. "But there are still probably hundreds or even thousands of companies that have never heard of it." □

WORKPLACE ISSUES

FEAR OF AIDS

The AIDS-related issues cited as most important by personnel managers:	
Co-workers' fear	40%
Legal responsibilities of the employer	22%
Potential for increased health-insurance costs	11%
Protection of health-care workers and others who physically care for people with AIDS	11%
Lost productivity of co-workers due to absence or refusal to work with person with AIDS	5%
Lost productivity of a person with AIDS	2%

Source: *Personnel Journal*

To help meet the need for information, Personnel Journal *publishes a free listing of the 200 or so publications available that deal with managing AIDS issues in the workplace.*

RECRUITING

HOLD THAT RESUME!

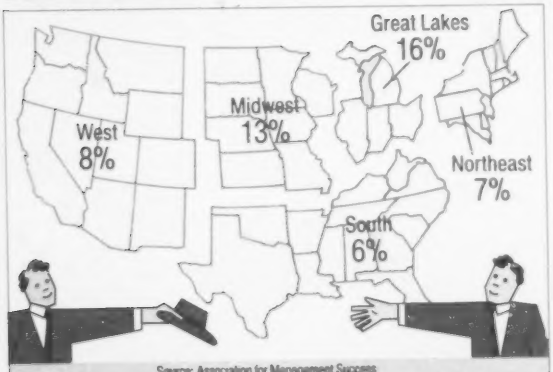
Admit it. When you've finally settled on the right person to fill an opening, you're only too happy to fold, spindle, and mutilate the remaining résumés still cluttering your desk, right? If so, says Warren Rodgers, president of Computer Specialists Inc. (CSI), in Monroeville, Pa., you're making a big mistake.

Instead of chucking the lot, he weeds out applicants with any promise—so far, he's culled 600—and enters their names and special skills into a computer. If he discovers he needs the skills of an on-file applicant later, he calls. And those he doesn't call? Rodgers keeps in touch. Occasionally, he even points them toward full-time jobs in companies besides his own.

It's not surprising that such treatment "does wonders for our image in the marketplace," says Rodgers, whose company relies on having access to "a steady stream of quality people." What's more, those placed outside can become great sources of industry information. "We want them to remember us," says Rodgers. □

PERSONNEL

JOB SHARING



Source: Association for Management Success

Job-sharing plans, which allow two or more people to share a single full-time job, have grown in popularity during the 1980s. Companies in the Great Lakes or Midwest regions are about twice as likely to have job sharing as those in the East, West, or South.

MANAGING PEOPLE

THE INSIDE STORY

You can't solve problems until you identify their source. If, for instance, you operate a growing retail chain, and you sense that a particular store is underperforming, you're probably going to ask the store's manager what's causing the trouble. Nothing wrong with that, except that you might hear only part of the story. To find out what's *really* happening, Richard Schulze suggests you should check in with the checkout personnel—preferably by taking them to breakfast.

"If you've got a problem," advises Schulze, CEO of Minneapolis-based Best Buy Co., a chain of 40 consumer-electronics superstores, "go to the last point the customer visits." In retailing, that means the folks behind the cash registers.

Cashiers hear customer complaints and observe how a store runs, but all too often nobody asks their opinions. After Schulze's most recent cashiers' breakfast, at his Iowa City outlet, he made changes in store-level management.

Schulze says breakfasts work out better than traditional meetings because the relaxed atmosphere helps conversation get started. And the cashiers consider it a nice treat. For $50 to $60, he gets "absolutely invaluable results." □

DIAGRAMS: CYNTHIA DAVIS

HANDS ON

HIRING

HITTING THE PHONES

If much of your company's contact with customers is by telephone, why not take phone manner into account in hiring decisions? Darline Porter, co-owner of Horrell & Son Heating and Air Conditioning, in Sacramento, does just that.

Before prospective office employees get invited for interviews, they must speak to Porter on the phone—where, unbeknownst to them, she evaluates them for a pleasant voice and manner. By immediately eliminating substandard applicants, the process cuts down on the number of in-person interviews Horrell & Son conducts. And it helps ensure the kind of phone service that earns the company frequent praise. ☐

QUOTE OF THE MONTH

"It's like having people sit on tacks. It's hard for them to think of anything else while they're doing it."

—David Morgenthaler, managing partner of Morgenthaler Ventures, on why the wrong compensation system can be destructive

FINANCE

LESSONS

You probably won't improve a losing operation unless you can get your managers, especially ones who don't usually think in bottom-line terms, to understand the financial consequences of every decision they make. And Ken Hendricks, CEO of American Builders & Contractors Supply Co., has found a dramatic way to do just that. He educates his people with Monopoly money.

Hendricks routinely acquires wholesale outlets operating in the red and tries to turn them around. To help his managers understand where the money's going, he sets up two shoe boxes, one representing the center's budget, the other its expenditures. As the managers move play money into the budget box, they see the consequences of plans gone awry—poor maintenance, for example, or overstaffing. The consequences are personal, too; the managers' compensation is determined by the center's performance.

"When a tire blows on one of our trucks, it costs you in profitability and profit sharing," says Hendricks. "It hits the managers like a ton of bricks. This gets people to see reality." ☐

BEHAVIOR

SMARTER?

CEOs of INC. 500 companies report they now spend 54 hours a week managing their businesses—16% less than when they started.

LAW

HOW NOT TO INFRINGE A PATENT

Don't assume you're personally off the hook when your company infringes somebody else's patent. Stuart A. Schwam, president and 50% shareholder of Railroad Dynamics Inc. (RDI) learned that the hard way. When RDI couldn't ante up $2,182,986, the amount a court awarded A. Stucki Co. for patent infringement, Stucki sued Schwam himself—and won.

How do you make sure it won't happen to you? "Stay out of the lab," counsels William Bunker, an intellectual-property lawyer in Newport Beach, Calif. "If you take special care to delegate any related tasks, you'll be insulated."

That means you should avoid participating directly in project-design or manufacturing-procedure decisions. "When possible, delegate those responsibilities to a nondirector or officer," Bunker explains. Also, directors and officers should obtain a corporate-indemnity agreement in the few states where it's now allowed (New York, Delaware, and California), and obtain patent indemnities and noninfringement opinion letters from third-party product suppliers. And, of course, adopt and enforce a written policy against infringing patents and other intellectual property. Says Bunker, "Few patent cases come as a complete surprise." ☐

PUBLIC RELATIONS

HI. NICE TO MEET YOU. HERE'S MY CREDO.

Smart managers never miss a chance to explain what their company stands for. Do you guarantee the lowest prices? Fastest service? Biggest selection? Why not tell the world about it—right on the back of your business card?

That's what Thomas L. Venable, chairman of Spectrum Control Inc., has done—and he claims that it has helped distinguish his firm from his competitors.

Venable places a 45-word message, entitled "Spectrum's Quality Response Process," on the back of each employee's business card. It stresses that the company is "committed to quality performance" and strives to do each job "error free."

"These goals are important to us," says Venable, whose Erie, Pa., company ensures that differing technological devices will work together.

He says the cost of adding the message is small, since 50,000 cards—each containing the company's name and address on the front and the message on the back—are printed at a time. The cards are then customized to include the employee's name, job title, and telephone number. ☐

Reported by Sara Baer-Sinnott, Paul B. Brown, Joshua Hyatt, Teri Lammers, Martha E. Mangelsdorf, Bruce G. Posner, Stephen D. Solomon, Paul Thomas, and Ellie Winninghoff

AN APRIL 15 FOLLOW-UP

If you've underreported interest income or dividends, act now and avoid the penalties

INTEREST AND DIVIDENDS

Did you report all of your interest income and dividends on your tax return? If not, you have a problem. The IRS document-matching program is in high gear, and interest income and dividend payments reported on Form 1099 are now fed into IRS computers.

The IRS will not only catch you, but will produce a notice of unreported income, the additional tax due, interest on the tax, and penalties. Negligence penalties are 5% of the additional tax and 50% of the amount of the interest due on the underpayment. The IRS makes a presumption of negligence that can be overcome only by "clear and convincing" evidence to the contrary.

If you filed your return last month and failed to report such income, you should file an amended return immediately. Although you will have to pay the tax and interest, you should be able to avoid the penalties.

—Irving L. Blackman

Top five errors found by IRS computers on Form 1040*
(Form completed by paid preparer)

Wrong Social Security number	53.8%
Illegible Social Security number	16.1
Income amounts not from W-2	11.0
Illegible name	10.3
Name on wrong line	8.8

*New England and upstate New York, 1986

Source: IRS Program Analysis System

PUTTING YOUR IRA AT RISK

When you fail to pay your personal taxes, the IRS can put a lien on your bank account, credit union account, even stocks and bonds. Now, it seems, your IRA or Keogh plan can be put at risk as well.

Last year in Miami, a collection agent discovered that a delinquent taxpayer had money in a Keogh plan, and served a notice of levy on the bank custodian. The bank sent a cashier's check to the IRS for the specified amount. The next year, the audit division of the IRS sent a deficiency notice to the taxpayer: the amount taken from his Keogh was taxable income. He also owed a penalty for a "premature" distribution from his retirement plan because he had not reached the age of 59½.

If a Keogh or IRA is pledged or assigned and, as a result, is paid to a third party, the owner is treated as if he had received the distribution. And payment of federal taxes by means of a levy is an "assignment" of income, albeit an involuntary one. So the tax court held that the income was taxable. Since the withdrawal was involuntary, however, it refused to enforce the penalty asserted by the IRS. That, it judged, "... would be like throwing salt into a wound."

—Jay Brandzel

AND IF THE FEDS OWE YOU?

Are you one of those people who thinks you can put off filing a return because the government owes you money? If so, think again. In a recent letter ruling, the IRS took quite a different approach.

The situation was this: early in 1986, a taxpayer calculated that he owed $14,000 on his return for 1985, but since $14,200 had been withheld, he thought there was no reason to file a return. So far as he was concerned, IRS penalties were calculated on paid taxes, and his taxes were paid.

This year, the IRS sent him one notice for failing to file, and then another. So he did up a return, showing a balance due him of $200, and in a nasty letter asked for interest from April 15, 1986. Instead of a check, he received a bill for $3,300—25% substantial underpayment penalty less the $200. Since no return was filed until the IRS contacted the taxpayer, it assumed that the tax shown on his return before the contact was zero. The tax that should have been shown was $14,000, and thus the penalty. While this treatment has been a traditional—and legitimate—course of action when dealing with tax protesters who filed no returns and paid no taxes, that is not the situation here. Ultimately, we may need a new court decision to resolve this issue, but in the meantime, filing a return is your best course of action.

—J.B.

TAPING YOUR AUDIT

If you've ever had the urge to tape your IRS audit, but were hesitant to ask, go ahead. The IRS is willing to permit an audiotape or a stenographic recording of the audit.

Videotaping, however, is out. That was decided in a case brought before the court of appeals. The taxpayer claimed that a video would offer advantages for recording documents shown in the audit and the appearance of people before the auditors. The court sided with the IRS, and the basis of its decision was that the refusal of the IRS to allow videotape did not violate the taxpayer's rights. After all, the documents to be videotaped were his own—he was free to make copies. And appearances could be noted on a transcript. But the case does confirm your right to make an audiotape.

—I.L.B.

GIFT-TAX RETURNS

Generally, the statute of limitations on tax returns is three years. After that time, the IRS can't audit your return or attempt to increase your tax. One exception is a fraudulent return. Another is the gift tax.

For tax purposes, gifts are valued at fair market value at the time they're given. Suppose, for instance, you make a gift of stock in your company to your son in 1988 and you file a gift-tax return stating its value to be $200,000. Since you get an annual exclusion of $10,000, your taxable gift is only $190,000. And since the unicredit (the once-in-a-lifetime amount that can be gifted without paying any tax) effectively allows an exemption of $600,000, your 1988 return will show "no tax due."

Say that four years from now you've made more gifts, used up your unicredit, and owe a gift tax. The IRS can go back and *revalue* the 1988 gift even though the three-year statute of limitations has run out. That's because it has ruled that the statute of limitations does not start from the date you file the return, but from the date the tax is paid in real dollars. So hang on to those gift-tax returns.

—I.L.B.

Irving L. Blackman, specializing in closely held businesses at Chicago-based Blackman Kallick Bartelstein, certified public accountants, speaks and writes on tax issues.

Jay Brandzel, CPA, is national tax partner of Laventhol & Horwath, based in its executive office in Philadelphia.